

DIAMOND HILL INVESTMENT GROUP INC

Form ARS

March 16, 2015

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DIAMOND HILL INVESTMENT GROUP, INC.

ANNUAL LETTER TO SHAREHOLDERS

March 12, 2015

Dear Fellow Shareholders:

Given the challenges that active managers have faced in recent years, I believe it is important to reiterate our commitment to our fiduciary responsibilities to our clients and shareholders.

*The asset management industry is not complex but neither is it easy, especially as an active manager. Our fiduciary responsibility to our clients is crystal clear. We fulfill that responsibility by providing investment strategies that we believe will deliver long-term value to our clients' portfolios and then by communicating accurately the degree to which we have succeeded in that endeavor.*

*Similarly, our corporate goal is to provide a return to our owners commensurate with the risk of our enterprise. This is measured by the capital returned to shareholders and the growth in the intrinsic value per share.*

I am pleased that, since inception, we have generally met this dual mission of delivering value to our clients and to our shareholders. Going forward, while our mission remains clear, it continues to be challenging as we experience countervailing winds: the benefit of more resources, offset by larger assets under management (AUM). Therefore, continuous improvement is required in all areas of the firm.

**Investment Strategy Results for Clients**

2014 was a difficult year for active managers with the S&P 500 Index return exceeding the returns of 80% of U.S. large cap strategies. For the five years ended December 31, 2014, nearly all of our investment strategies' returns trailed their passive alternatives, yet most of them ranked above average in peer comparisons. Passive strategies are frequently tough competition, which helps to explain their rise in popularity. 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 our investment strategies' passive alternatives over the majority of long time periods (as we have for most of our strategies since their respective inceptions), the past five years notwithstanding.

**Financial Results: Shareholder Value**

Revenue was \$105 million in 2014 compared with \$81 million in 2013 and \$44 million in 2009. AUM finished the year at \$15.7 billion, up 29% from 2013 and 149% from 2009 as a result of the strong U.S. equity market coupled with steady net inflows into our mutual funds. These net inflows likely represent an increase in our market share, which is still probably below 1% of the total value of comparable mutual fund assets.

Our 45% operating margin was considerably higher than last year's margin of 38% primarily as a result of a decrease in total compensation expense as a percentage of total revenues. A significant component of compensation expense is variable incentive compensation, which can fluctuate greatly from period to period. Incentive compensation expense

is determined by many factors, including investment results in client accounts, individual employee contributions, company performance, and other factors.

Over the past five years, Diamond Hill's tangible book value per share has increased from \$8.58 at the end of 2009 to \$22.40 at the end of 2014. Additionally, we have paid \$33 per share in dividends over the past five years (\$53 per share

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since our initial dividend payment in 2008). The \$33 per share in dividends and the \$13.82 increase in tangible book value per share results in a total of \$46.82 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 26% 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**

Our succession planning effort for the next generation of Diamond Hill Capital Management, Inc. executive leadership is now complete with Chris Bingaman serving as President and Lisa Wesolek as Chief Operating Officer. With Jim Laird's retirement at year-end, Tom Line was promoted to the role of Chief Financial Officer. Jim continues on the Board of Directors, and serves as our Corporate Secretary. Gary Young assumed Jim's role as President of Diamond Hill Funds and continues as our Chief Compliance Officer.

Our plan is for Chris to succeed me as Chief Executive Officer in January 2016. As I wrote in the Diamond Hill annual shareholder letter in March 2011, I intend to continue to serve as a portfolio manager. In addition, it is expected that I will succeed Don Shackelford as Board Chairman this year when his term expires.

## **The Next Five Years**

During the next five years, and always, our top priority is to meet our fiduciary duty to clients. Adding value to our clients' portfolios is imperative for retaining and growing our client base. Secondly, adding new strategies that fit well with our existing strategies is something we will consider. Over the past few years, we have expanded our research effort to include more international companies. A deeper understanding of non-U.S. based companies not only allows us to be better investors, but also may lead to a global strategy in the future. 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.

Since the low point in March of 2009, the S&P 500 Index has tripled, outpacing economic growth over the same period. As a result, we believe equity market returns will be modest over the next five years, which certainly impacts our growth in revenues and profits.

Finally, our Beacon Hill subsidiary reached profitability last year, and we expect continued growth in their business. Additional tangential business opportunities are possible, but only when we believe that such opportunities would increase the intrinsic value of our entire firm.

We are a financially strong, well-positioned firm operating in a very competitive industry. While I would not want us to underestimate the various challenges, I believe that we will continue to build upon our past successes and to reward clients, shareholders, and associates accordingly. I thank our Board of Directors, and a special thanks to outgoing Board Chairman Don Shackelford, who like his predecessor David Meuse, provided me excellent counsel and support.

Sincerely,

R. H. Dillon

Chief Executive Officer

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**Diamond Hill Investment Group, Inc.**  
**325 John H. McConnell Boulevard, Suite 200**  
**Columbus, Ohio 43215**

March 12, 2015

Dear Shareholders:

We cordially invite you to attend the 2015 Annual Meeting of Shareholders of Diamond Hill Investment Group, Inc. to be held at 325 John H. McConnell Blvd., Columbus, Ohio 43215, on Wednesday, April 29, 2015, at 10:00 a.m. Eastern Daylight Saving Time.

The attached Notice of Annual Meeting and Proxy Statement describe the formal business to be transacted at the meeting. During the meeting, we will also report on our operations and our directors and officers will be present to respond to any appropriate questions you may have. **On behalf of the Board of Directors, we urge you to sign, date and return the enclosed proxy card as soon as possible, even if you currently plan to attend the Annual Meeting.** This will not prevent you from voting in person, but will ensure that your vote is counted if you are unable to attend the Annual Meeting. Your vote is important, regardless of the number of shares you own.

Sincerely,

R. H. Dillon

Chief Executive Officer

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**Diamond Hill Investment Group, Inc.**

**325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON APRIL 29, 2015**

**Notice is hereby given** that the 2015 Annual Meeting of Shareholders (the Annual Meeting ) of Diamond Hill Investment Group, Inc. (the Company ), will be held at 325 John H. McConnell Blvd., Columbus, Ohio 43215, on Wednesday, April 29, 2015, at 10:00 a.m. Eastern Daylight Saving Time to consider and act upon the following matters:

- 1) the election of six directors to serve on the Company s Board of Directors until the Company s 2016 Annual Meeting of Shareholders and until their successors have been duly elected and qualified;
- 2) the ratification of the appointment of KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2015;
- 3) a non-binding, advisory resolution to approve the compensation of the Company s named executive officers;
- 4) such other business as may properly come before the Annual Meeting or any adjournment thereof.

Action may be taken on the foregoing proposals at the Annual Meeting or at any adjournment of the Annual Meeting. The Board of Directors has fixed the close of business on March 5, 2015, as the record date for determination of the shareholders entitled to vote at the Annual Meeting and any adjournments thereof. Please complete, sign and date the enclosed form of proxy, which is solicited by the Company s Board of Directors, and mail it promptly in the enclosed envelope. Alternatively, you may vote by phone or electronically over the Internet in accordance with the instructions on the enclosed proxy. Returning the enclosed proxy card, or transmitting voting instructions electronically through the Internet or by telephone, does not affect your right to vote in person at the Annual Meeting. If you attend the Annual Meeting, you may revoke your proxy and vote in person if your shares are registered in your name.

**PROMPTLY RETURNING YOUR PROXY WILL SAVE THE COMPANY THE EXPENSE OF MAKING FURTHER REQUESTS FOR PROXIES IN ORDER TO OBTAIN A QUORUM. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE. ALTERNATIVELY, REFER TO THE INSTRUCTIONS ON THE PROXY CARD TO TRANSMIT YOUR VOTING INSTRUCTIONS VIA THE INTERNET OR BY TELEPHONE.**

By order of the Board of Directors,

James F. Laird

Secretary

Columbus, Ohio

March 12, 2015

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE  
ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 29, 2015:**

**The Proxy Statement and the Company's 2014 Annual Report to Shareholders are available without charge at  
the**

**following location:**

<http://www.diamond-hill.com/proxy>



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**Diamond Hill Investment Group, Inc.**

**325 John H. McConnell Boulevard, Suite 200**

**Columbus, Ohio 43215**

**PROXY STATEMENT**

**FOR THE ANNUAL MEETING OF SHAREHOLDERS OF**

**DIAMOND HILL INVESTMENT GROUP, INC.**

**TO BE HELD ON APRIL 29, 2015**

This Proxy Statement is being furnished to the shareholders of Diamond Hill Investment Group, Inc., an Ohio corporation (the Company, we, us or our), in connection with the solicitation of proxies by our Board of Directors (Board) for use at our 2015 Annual Meeting of Shareholders (the Annual Meeting) to be held on April 29, 2015, and any adjournment thereof. A copy of the Notice of Annual Meeting accompanies this Proxy Statement. This Proxy Statement and the enclosed proxy are first being mailed to shareholders on or about March 12, 2015. Only our shareholders of record at the close of business on March 5, 2015, the record date for the Annual Meeting, are entitled to notice of, and to vote at, the Annual Meeting.

The purposes of this Annual Meeting are:

- 1) To elect six directors to serve on our Board until our 2016 Annual Meeting of Shareholders and until their successors have been duly elected and qualified;
- 2) To consider and vote upon a proposal to ratify the appointment of KPMG LLP (KPMG) as our independent registered public accounting firm for the fiscal year ending December 31, 2015;
- 3) To consider and vote upon a non-binding, advisory resolution to approve the compensation of our named executive officers; and
- 4) To transact such other business that may properly come before the Annual Meeting or any adjournment thereof.

Those common shares represented by (i) properly signed proxy cards received by us prior to the Annual Meeting or (ii) properly authenticated voting instructions recorded electronically over the Internet or by telephone prior to 11:59 p.m. Eastern Daylight Saving Time on April 28, 2015 and, in each case, that are not revoked, will be voted at the Annual Meeting as directed by the shareholders. **If a shareholder submits a valid proxy and does not specify how the common shares should be voted, they will be voted as recommended by the Board.** The proxy holders will

use their best judgment regarding any other matters that may properly come before the Annual Meeting.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE  
ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 29, 2015:**

**The Proxy Statement and the Company's 2014 Annual Report to Shareholders are available without charge at  
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**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING**

**Q: When and where will the Annual Meeting take place?**

A: The Annual Meeting will be held at 325 John H. McConnell Blvd., Columbus, Ohio 43215, on Wednesday, April 29, 2015, at 10:00 a.m. Eastern Daylight Saving Time. You may also listen live to the Annual Meeting via audio conference by calling 1-888-517-2458, and using passcode 8418 969# when prompted.

**Q: What may I vote on?**

A: At the Annual Meeting, you will be asked to consider and vote upon: (i) the election of six directors to serve on the Board until our 2016 Annual Meeting of Shareholders; (ii) the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015; and (iii) a non-binding, advisory resolution to approve the compensation of our named executive officers.

**Q: What do I need to do now?**

A: After carefully reading this Proxy Statement, indicate on the enclosed proxy card how you want your shares to be voted and sign and mail the proxy card promptly in the enclosed envelope. Alternatively, you may vote by phone or over the Internet in accordance with the instructions on your proxy card. The deadline for transmitting voting instructions over the Internet or telephonically is 11:59 p.m. Eastern Daylight Saving Time on Tuesday, April 28, 2015. If you vote by phone or over the Internet you do not need to return a proxy card. You should be aware that if you vote over the Internet or by phone, you may incur costs associated with electronic access, such as usage charges from Internet service providers and telephone companies.

**Q: What does it mean if I get more than one proxy card?**

A: If your shares are registered in more than one account, you will receive more than one proxy card. If you intend to vote by mail, sign, date and return all proxy cards to ensure that all your shares are voted. If you are a record holder and intend to vote by telephone or over the Internet, you must do so for each individual proxy card you receive.

**Q: What is the difference between holding shares as a shareholder of record and as a beneficial owner?**

A: Many shareholders are beneficial owners, meaning they hold their shares in street name through a broker, bank or other nominee. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

*Shareholder of Record.* For shares registered directly in your name with our transfer agent, you are considered the shareholder of record and we are sending this Proxy Statement and related materials directly to you. As a shareholder of record, you have the right to vote in person at the Annual Meeting or you may grant your proxy directly to the Board's designees by completing, signing and returning the enclosed proxy card, or transmitting your voting instructions over the Internet or by phone.

*Beneficial Owner.* For shares held in street name, you are considered the beneficial owner and this Proxy Statement and related materials are being forwarded to you by your broker, bank or other nominee, who is the shareholder of record. As the beneficial owner, you have the right to direct your broker or other nominee on how to vote your shares. Your broker or nominee will provide you with information on the procedures you must follow to instruct them how to vote your shares or how to revoke previously given voting instructions.

**Q: If my shares are held in street name by my broker, will my broker vote my shares for me?**

A: Your broker will vote your shares in the manner you instruct, and you should follow the voting instructions your broker provided to you. However, if you do not provide voting instructions to your broker, it may vote your shares in its discretion on certain routine matters. The ratification of the appointment of KPMG as our independent registered public accounting firm for the 2015 fiscal year is considered routine, and if you do not submit voting instructions, your broker may choose, in its discretion, to vote or not vote your shares on the ratification. None of the other matters to be voted on at the Annual Meeting are routine, and your broker may not vote your shares on those matters without your instructions.

**Q: May I revoke my proxy or change my vote after I have mailed a proxy card or voted electronically over the Internet or by telephone?**

A: Yes. You can change your vote at any time before your proxy is voted at the Annual Meeting. If you are the record holder of the shares, you can do this in three ways:

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send a written statement to James F. Laird, our Secretary, stating that you would like to revoke your proxy, which must be received prior to the Annual Meeting;

send a newly signed and later-dated proxy card, which must be received prior to the Annual Meeting, or submit later-dated electronic voting instructions over the Internet or by telephone no later than 11:59 p.m. Eastern Daylight Saving Time on April 28, 2015; or

attend the Annual Meeting and revoke your proxy in person prior to the start of voting at the Annual Meeting or vote in person at the Annual Meeting (**attending the Annual Meeting will not, by itself, revoke your proxy or a prior Internet or telephone vote**).

If you are a beneficial owner, you may change your vote by submitting new voting instructions to your broker or nominee, and you should review the instructions provided by your broker or nominee to determine the procedures you must follow.

**Q: Can I vote my shares in person at the Annual Meeting?**

A: You may vote shares held of record in person at the Annual Meeting. If you choose to attend, please bring the enclosed proxy card and a form of identification. If you are a beneficial owner and you wish to attend the Annual Meeting and vote in person, you will need a signed proxy from your broker or other nominee giving you the right to vote your shares at the Annual Meeting and a form of identification. To obtain directions to attend the Annual Meeting and vote in person, please call our office at (614) 255-3333 or visit the Company's website, <http://www.diamond-hill.com/contact/>.

**Q: How will my shares be voted if I submit a proxy without voting instructions?**

A: If you submit a proxy and do not indicate how you want your shares voted, your proxy will be voted on the proposals as recommended by the Board. The Board's recommendations are set forth in this Proxy Statement.

**Q: Who can answer my questions about how I can submit or revoke my proxy or vote by phone or via the Internet?**

A: If you are a record shareholder and have more questions about how to submit your proxy, please call Tom Line, the Company's Chief Financial Officer, at (614) 255-3333. If you are a beneficial owner, you should contact your broker or other nominee to determine the procedures you must follow.

**PROCEDURAL MATTERS**

**Record Date**

Only our shareholders of record at the close of business on March 5, 2015, the record date, will be entitled to vote at the Annual Meeting. As of the record date, there were 3,340,753 of our common shares outstanding and entitled to vote at the Annual Meeting.

### **Proxy**

Your shares will be voted at the Annual Meeting as you direct on your signed proxy card or in your telephonic or Internet voting instructions. If you submit a proxy card without voting instructions, it will be voted as recommended by the Board. These recommendations are set forth in this Proxy Statement. The duly appointed proxy holders will vote in their discretion on any other matters that may properly come before the Annual Meeting.

### **Voting**

Each outstanding share may cast one vote on each separate matter of business properly brought before the Annual Meeting. If you hold shares in street name, we encourage you to instruct your broker or other nominee as to how to vote your shares.

A shareholder voting in the election of directors may cumulate such shareholder's votes and give one candidate a number of votes equal to (i) the number of directors to be elected (six), multiplied by (ii) the number of shares held by the shareholder, or may distribute such shareholder's total votes among as many candidates as the shareholder may select. However, no shareholder will be entitled to cumulate votes unless the candidate's name has been placed in nomination prior to voting and a shareholder has given us notice at least 48 hours prior to the Annual Meeting of the intention to cumulate votes. The proxies the Board is soliciting include the discretionary authority to cumulate votes. If cumulative voting occurs at the Annual Meeting, the proxies intend to vote the shares represented by proxy in a manner to elect as many of the six director nominees as possible. Cumulative voting only applies to the election of directors.

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***Director elections.*** The affirmative vote of the holders of a plurality of the shares present at the Annual Meeting, in person or by proxy, and entitled to vote is required for the election of directors. The six nominees receiving the most votes will be elected.

***Ratification of selection of KPMG.*** The affirmative vote of a majority of the shares present at the Annual Meeting, in person or by proxy, and entitled to vote on the proposal is required to ratify the selection of KPMG as the Company's independent registered public accounting firm for fiscal year 2015.

***Advisory approval of named executive officer compensation.*** The affirmative vote of a majority of the shares present at the Annual Meeting, in person or by proxy, and entitled to vote on the proposal is required for shareholder advisory approval of the compensation of the Company's named executive officers.

***Effect of broker non-votes and abstentions.*** Under the applicable regulations of the Securities and Exchange Commission (the "SEC") and the rules of exchanges and other self-regulatory organizations of which the brokers are members, brokers who hold common shares in street name may sign and submit proxies and may vote our common shares on certain routine matters. The ratification of KPMG is considered routine. Brokers may not vote street name shares on other matters without specific instructions from the customer who owns the shares. Proxies that are signed and submitted by brokers that have not been voted on certain matters are referred to as "broker non-votes."

Under applicable stock exchange rules, brokers are not permitted to vote without instruction in the election of directors. In addition, SEC regulations prohibit brokers from voting without customer instruction on the approval of named executive officer compensation. Neither broker non-votes nor abstentions will have any effect on the election of directors. Abstentions will have the same effect as a vote against the ratification of the appointment of KPMG and the advisory approval of named executive officer compensation; although, broker non-votes will have no effect on those proposals.

## **Quorum**

Business can be conducted at the Annual Meeting only if a quorum, consisting of at least the holders of a majority of our outstanding shares entitled to vote, is present, either in person or by proxy. Abstentions and broker non-votes will be counted toward establishing a quorum. If a quorum is not present at the time the Annual Meeting is convened, a majority of the shares represented in person or by proxy may adjourn the Annual Meeting to a later date and time, without notice other than announcement at the Annual Meeting. At any such adjournment of the Annual Meeting at which a quorum is present, any business may be transacted which might have been transacted at the Annual Meeting as originally called.

## **Solicitation; Expenses**

We will pay all expenses of the Board's solicitation of the proxies for the Annual Meeting, including the cost of preparing, assembling and mailing the Notice, form of proxy and Proxy Statement, postage for return envelopes, the handling and expenses for tabulation of proxies received, and charges of brokerage houses and other institutions, nominees or fiduciaries for forwarding such documents to beneficial owners. We will not pay any electronic access charges associated with Internet or telephonic voting incurred by a shareholder. We may solicit proxies in person or by telephone, facsimile or e-mail, and our officers, directors and employees may also assist with solicitation, but will receive no additional compensation for doing so.

No person is authorized to give any information or to make any representation not contained in this Proxy Statement, and you should not rely on any such information or representation. This Proxy Statement does not constitute the



solicitation of a proxy in any jurisdiction from any person to whom it is unlawful to make such proxy solicitation in such jurisdiction. The delivery of this Proxy Statement shall not, under any circumstances, imply that there has not been any change in the information set forth herein since the date of this Proxy Statement.

**Requests for Proxy Statement and Annual Report on Form 10-K; Internet Availability**

Our Annual Report on Form 10-K for the year ended December 31, 2014, including audited consolidated financial statements, accompanies this Proxy Statement but is not a part of the proxy solicitation material. We are delivering a single copy of this Proxy Statement and the Form 10-K to multiple shareholders sharing an address unless we have received instructions from one or more of the shareholders to the contrary. We will promptly deliver a separate copy of the Proxy Statement and/or Form 10-K, at no charge, upon receipt of a written or oral request by a record shareholder at a shared address to which a single copy of the documents was delivered. Written or oral requests for a separate copy of the documents, or to provide instructions for delivery of documents in the future, may be directed to James F. Laird, Secretary of the Company, at 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215 or by phone at (614) 255-3333. Additionally, this Proxy Statement and our Annual Report on Form 10-K are available on the internet free of charge at: <http://www.diamond-hill.com/proxy>.

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The following table sets forth beneficial ownership of our common shares as of the record date, March 5, 2015, by (a) all persons known by us to own beneficially five percent or more of the Company's outstanding shares, (b) each director and director nominee, (c) our Chief Executive Officer, President, Chief Financial Officer, and Chief Operating Officer, and (d) all of our executive officers, directors, and nominees as a group. Although not required, we have voluntarily disclosed all common shares beneficially owned by all other employees of the Company, excluding the executive officers. Unless otherwise indicated, the named persons exercise sole voting and dispositive power over the shares listed. None of the named persons have any outstanding options, and none of the named persons has pledged any common shares of the Company as security.

| Name of Beneficial Owner  | Amount and Nature<br>of Beneficial<br>Ownership | Percent of<br>Class <sup>(1)</sup> |
|---|---|------------------------------------|
| Christopher M. Bingaman   | 25,101 <sup>(2)</sup>                           | *                                  |
| R. H. Dillon  | 300,419 <sup>(2)</sup>                          | 9.0%                               |
| Randolph J. Fortener  | 6,000   | *                                  |
| Thomas E. Line  | 1,933 <sup>(2)</sup>                            |                                    |
| James F. Laird  | 83,342 <sup>(2)</sup>                           | 2.5%                               |
| Paul A. Reeder III  |   | *                                  |
| Donald B. Shackelford   | 11,705  | *                                  |
| Bradley C. Shoup  | 6,000   | *                                  |
| Frances A. Skinner  | 6,935   | *                                  |
| Lisa M. Wesolek   | 29,630 <sup>(2)</sup>                           | *                                  |
| Directors, nominees, and executive officers as a group (10 persons) | 471,065   | 14.1%                              |
| All other employees of the Company (110 persons)                    | 529,590 <sup>(3)</sup>                          | 15.9%                              |
| <b><u>5% Beneficial Owners</u></b>                                  |   |                                    |
| Royce & Associates, LLC <sup>(4)</sup>                              | 229,596   | 6.2%                               |
| BlackRock, Inc. <sup>(5)</sup>                                      | 186,574   | 5.7%                               |

- (1) Beneficial ownership of less than one percent is represented by an asterisk (\*). The percent of class is based upon (a) the number of shares beneficially owned by the named person, divided by (b) the total number of shares that are issued and outstanding as of March 5, 2015 (3,340,753 shares).
- (2) Includes 2,680 shares, 3,149 shares, 3,530 shares, 170 shares, and 887 shares for Mr. Bingaman, Mr. Dillon, Mr. Laird, Mr. Line, and Ms. Wesolek, respectively, that are held in the Company's 401(k) plan, over which the Trustee of the 401(k) Plan possess the voting power and which are subject to restrictions on the power to dispose of these shares.
- (3) Includes all employees of Diamond Hill Investment Group, Inc. and its subsidiaries as of March 5, 2015, excluding executive officers and agent employees. Each employee has sole voting power. Certain shares are subject to restrictions on the power to dispose of the shares. The employees do not constitute a Group as defined by Rule 13d-1 of the Exchange Act. Includes 63,710 shares held in the Company's 401(k) plan, over which the Trustees of the 401(k) Plan possess the voting power and which are subject to restrictions on the power to dispose of these shares.
- (4) The address for Royce & Associates, LLC is 745 Fifth Avenue, New York, NY 10151. Based on information contained in a Schedule 13G/A filed with the SEC on January 8, 2015, by Royce & Associates, Inc. In this

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Schedule 13G/A, Royce & Associates, Inc. reported sole voting power and sole dispositive power over 229,596 shares on its own behalf.

- (5) The address for BlackRock, Inc. is 40 East 52nd Street, New York, NY 10022. Based on information contained in a Schedule 13G/A filed with the SEC on February 2, 2015, by BlackRock, Inc. In this Schedule 13G/A, BlackRock, Inc. reported sole voting power over 181,945 shares and sole dispositive power over 186,574 shares on behalf of the following subsidiaries: BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Asset Management Canada Limited, BlackRock Advisors, LLC, and BlackRock Investment Management, LLC.

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**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires executive officers and directors, and persons who beneficially own more than ten percent of the Company's shares (the Reporting Persons), to file with the SEC initial reports of ownership on Form 3 and reports of changes in ownership on Form 4 and Form 5. Reporting Persons are required by SEC regulations to furnish to the Company copies of all Section 16(a) reports they file with the SEC. Based solely upon a review of the Forms 3, 4 and 5 furnished to the Company and statements made by Reporting Persons that no other Section 16(a) reports were required to be filed by them, we believe that the Reporting Persons complied with all filing requirements applicable to them with respect to transactions during the fiscal year ended December 31, 2014, except that each of Ms. Wesolek, and Messrs. Bingaman and Laird filed one Form 4 late.

**PROPOSAL 1 ELECTION OF DIRECTORS**

The Board guides the strategic direction of the Company and oversees its management. All of our directors are elected annually. Donald B. Shackelford, who has served as a director of the Company since 2005 and is the Chairman of the Board, is retiring from the Board at the Annual Meeting and, therefore, has not been renominated. The Board would like to thank Mr. Shackelford for his dedicated service to the Company. Upon recommendation of the Nominating and Governance Committee, the Board has nominated Paul A. Reeder, III for election as a new director of the Company. Mr. Reeder was recommended for nomination by Mr. Dillon, the CEO, who has known Mr. Reeder for more than 20 years.

Pursuant to the recommendation of the Nominating and Governance Committee, the Board has nominated the six nominees listed below for election, all of whom, with the exception of Mr. Reeder, are incumbents, to hold office until the next annual meeting of shareholders and until their respective successors are elected and qualified. If any nominee becomes unable or unwilling to serve between the date of this proxy statement and the Meeting, proxies will be voted **FOR** the election of a replacement recommended by the Nominating and Governance Committee and approved by the Board.

**Director Independence**

The Board has determined that, with the exception of Mr. Dillon and Mr. Laird, all of our current and nominees are independent under the rules and independence standards of The NASDAQ Stock Market (NASDAQ), as well as applicable SEC requirements. There are no family relationships among our directors and executive officers.

**The Nominees**

The Board has determined that all of our director nominees are qualified to serve as directors of the Company. In addition to the specific business experience listed below, each of our director nominees has the tangible and intangible skills and attributes that we believe are required to be an effective director of the Company, including experience at senior levels in areas of expertise helpful to the Company, a willingness and commitment to assume the responsibilities required of a director, and the character and integrity we expect of our directors. The specific qualifications of each individual nominee are set forth under his or her name below.

**R. H. Dillon, CFA**, age 58, has been a director of the Company since 2001, and the CEO of the Company since 2000. Prior to joining the firm in 2000, Mr. Dillon had been employed as a portfolio manager by Loomis, Sayles & Company since 1997. Mr. Dillon has over 30 years of experience in the investment management industry.

Mr. Dillon received his BS and MA from The Ohio State University and his MBA from University of Dayton. Mr. Dillon also holds the Chartered Financial Analyst designation.

The Board believes that Mr. Dillon's qualifications to serve on the Board include his 14 years of experience as CEO and a Portfolio Manager of the Company, his in depth knowledge and involvement in our operations and his more than 30 years of experience as an investment professional.

**Randolph J. Fortener**, age 61, has been an independent director of the Company since 2013, is the chair of the Audit Committee, and serves on the Nominating and Governance Committee and the Compensation Committee. Mr. Fortener is currently the CEO of Cozzins Road Capital, a private investment firm, since 2014. As CEO of Cozzins Road Capital, Mr. Fortner directs all investment and acquisition activity for the company. Prior to that Mr. Fortener worked at the Crane Group, a private holding and management company, based in Columbus, Ohio, from 1990 to 2014 and served as the president of Crane Investment

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Company, from 2007 to 2014. Prior to joining the Crane Group, Mr. Fortener was a partner at Deloitte & Touche LLP, a big four accounting firm, providing services to investment banking firms. Mr. Fortener also specialized in estate and tax planning for privately held businesses while with Deloitte. Mr. Fortener has over 35 years of business experience, with an emphasis on corporate acquisitions and investments.

Mr. Fortener has served on numerous boards and has served as chairman of many. Currently, Mr. Fortener is an appointed board member of the Columbus Metropolitan Library and serves on the board of The Breathing Association.

Mr. Fortener received a BS in accounting from The University of Findlay and an MBA in finance from the University of Dayton and is a Certified Public Accountant (inactive).

Mr. Fortener's qualifications to serve on the Board include his substantial experience in accounting and financial matters, including his significant experience as a certified public accountant and his experience on other corporate boards.

**James F. Laird, CPA**, age 58, has been a director of the Company since 2011 and the Secretary since 2001 and served as the Chief Financial Officer and Treasurer of the Company and President of Diamond Hill Funds from 2001 to 2014. Mr. Laird retired from Diamond Hill (and his positions of Chief Financial Officer and Treasurer) effective December 31, 2014. Prior to joining the firm in 2001, Mr. Laird was employed as a Senior Vice President for Villanova Capital since 1999 and Vice President and General Manager for Nationwide Advisory Services, Inc. from 1995 to 1999. Mr. Laird has over 25 years of experience in the investment management industry.

Mr. Laird received his BS in Accounting from The Ohio State University, is a Certified Public Accountant, and previously held the Series 7, 24, 26, 27 and 63 securities licenses with the Financial Industry Regulatory Authority.

Mr. Laird's qualifications to serve on the Board include his 13 years of experience as CFO of the Company, his in depth knowledge and involvement in our operations and his more than 25 years of experience in the financial, operational, administrative, and distribution aspects of the investment management industry.

**Paul A. Reeder, III**, age 53, is up for election as a new director of the Company. Mr. Reeder has been the President of PAR Capital Management, a private investment management firm, since 1990.

Mr. Reeder received his BA from Oberlin College and his Master's degree from the Sloan School of Management at MIT.

Mr. Reeder's qualifications to serve on the Board include his substantial experience of over 30 years in the investment management industry as an analyst, portfolio manager, and a principal executive of a private investment partnership.

**Bradley C. Shoup**, age 56, has been an independent director of the Company since 2012, is the chair of the Nominating and Governance Committee, and serves on the Audit and Compensation Committees. Mr. Shoup has been Partner at Falcon Fund Management Ltd., since 2013. From 2011 to 2013, Mr. Shoup was Managing Director of Cox Partners, Inc. From 2007 to 2011, Mr. Shoup was Chief Investment Officer of Armstrong Equity Partners LP.

Mr. Shoup received his BS in Civil Engineering with Distinction from the University of Kansas and his Master's degree from the Sloan School of Management at MIT.

Mr. Shoup's qualifications to serve on the Board include over 20 years of experience in the investment management industry.

**Frances A. Skinner, CFA, CPA**, age 50, has been an independent director of the Company since 2010, is the chair of the Compensation Committee, and serves on the Audit Committee and the Nominating and Governance Committee. Ms. Skinner has been a partner with AUM Partners, LLC, a management consulting firm specializing in the investment management industry, since 2009. Prior to joining AUM Partners, she was a principal with Focus Consulting Group, Inc. from 2003 to 2009. Ms. Skinner also spent 16 years at Allstate Investments, LLC, where she worked on developing compensation and incentive programs for investment professionals. Ms. Skinner has over 25 years of experience in the areas of investment management, finance and consulting. She is a co-author of the book *High Performing Investment Teams* (Wiley, 2006).

Ms. Skinner received her BA from St. Xavier University and her MBA from the University of Illinois - Chicago. Ms. Skinner also holds the Chartered Financial Analyst designation and is a Certified Public Accountant.

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Ms. Skinner's qualifications to serve on the Board include her significant experience in the global investment management industry and experience in developing and consulting on matters of leadership, teamwork, performance evaluation, and compensation practices.

**THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF R. H. DILLON, RANDY J. FORTENER, JAMES F. LAIRD, PAUL A. REEDER, III, BRADLEY C. SHOUP, AND FRANCES A. SKINNER AS DIRECTORS OF THE COMPANY.**

## **THE BOARD OF DIRECTORS AND COMMITTEES**

The Board held a total of four meetings during the year ended December 31, 2014. Each director attended all of the combined total number of meetings of the Board and its committees of which he or she was a member. Consistent with our Corporate Governance Guidelines, the independent directors met in executive session at all of the regularly scheduled Board meetings in 2014. Our Corporate Governance Guidelines provide that all directors are expected to attend each annual meeting of shareholders. All of our then incumbent directors attended our 2014 Annual Meeting of Shareholders.

### *Corporate Governance*

The Board has three standing committees: the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee. The Board has adopted a written charter for each Committee. Current copies of each committee charter and our Corporate Governance Guidelines are available at our website, [ir.diamond-hill.com](http://ir.diamond-hill.com), under the heading "Corporate Governance" on the right hand side of the site.

Pursuant to rules promulgated under the Sarbanes-Oxley Act of 2002, the Board has adopted a Code of Ethics for Principal Executive and Senior Financial Officers. This code is intended to deter wrongdoing and promote honest and ethical conduct, full, timely and accurate reporting, compliance with laws, and accountability for adherence to the code, including internal reporting of code violations.

We also have a Code of Business Conduct and Ethics that is applicable to all of our employees and directors, a copy of which was filed as an exhibit to our Annual Report on Form 10-K filed with the SEC on March 13, 2009. It is our policy to require all employees to participate annually in continuing education and training relating to the Code of Business Conduct and Code of Ethics.

We also have established a policy prohibiting our officers, directors, and employees from purchasing or selling shares of the Company while in possession of material, nonpublic information, or otherwise using such information for their personal benefit or in any manner that would violate applicable laws and regulations. The policy also prohibits all employees and directors from purchasing or selling any derivative arrangement related to securities of the Company or engaging in any speculative, short selling, or hedging activities related to securities of the Company that may have a similar economic effect.

### *Audit Committee*

Mr. Fortener, Mr. Shoup, and Ms. Skinner serve on the Audit Committee, which met four times during 2014. Mr. Fortener serves as the Chair of the Audit Committee. The Board has determined that each of these committee members meets the independence and financial literacy rules and standards of the SEC and NASDAQ. The Board also has concluded that each of Mr. Fortener, Mr. Shoup, and Ms. Skinner meets the criteria for an audit committee financial expert as established by the SEC.



The primary purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities with respect to (1) the retention of our independent registered public accounting firm, including appointing and overseeing the terms of its engagement and its performance, qualifications and independence, and (2) the integrity of our financial statements, other financial information provided to shareholders, and our internal control structure. The Audit Committee also reviews all related person transactions for potential conflicts of interest on an ongoing basis and all such transactions must be approved by the Audit Committee. Additional information on the approval of related person transactions is available under the heading **Certain Relationships and Related Person Transactions** below. The report of the Audit Committee appears below the heading **AUDIT COMMITTEE REPORT**.

**Table of Contents***Compensation Committee*

Mr. Fortener, Mr. Shoup, and Ms. Skinner serve on the Compensation Committee, which met twice during 2014. Ms. Skinner serves as the Chair of the Compensation Committee. The Board has determined that each of these committee members meets the independence criteria of the SEC and NASDAQ.

The primary purpose of the Compensation Committee is to review and approve the Company's executive compensation policies, evaluate the performance of our executive officers in light of corporate goals and objectives approved by the Compensation Committee, approve the annual salary, bonus, stock grants and other benefits, direct and indirect, of our executive officers and other senior employees, make recommendations to the full Board with respect to incentive-compensation plans and equity-based plans and determine director and committee member/chair compensation for non-employee directors. The Compensation Committee also administers our equity and other incentive plans. The Compensation Committee has delegated to management the ability to make stock grants to our associates within specific parameters to align the interests of our shareholders and the associate, to promote employee retention, and long-term employee ownership. A description of the Company's processes and procedures for the consideration and determination of executive officer compensation are discussed under the heading "Compensation Discussion and Analysis" below.

*Nominating and Governance Committee*

Mr. Fortener, Mr. Shoup, and Ms. Skinner serve on the Nominating and Governance Committee, which met twice during 2014. Mr. Shoup serves as the Chair of the Nominating and Governance Committee. The Board has determined that each of these committee members meets the independence criteria of NASDAQ.

The primary purpose of the Nominating and Governance Committee is to maintain and cultivate the effectiveness of the Board and oversee the Company's governance policies. Among the committee's responsibilities are Board and committee composition, director qualifications, orientation and education, and Board evaluations. Members identify, evaluate, and nominate Board candidates; review compliance with director stock ownership guidelines; and oversee procedures regarding shareholder nominations and other communications to the Board. The Nominating and Governance Committee is also responsible for monitoring compliance with and recommending any changes to the company's Corporate Governance Guidelines. Additional information regarding the committee's activities can be found under the heading "Corporate Governance."

*Board Committee Membership*

The following table summarizes the membership of the Board and each of its committees, and the number of times each met during 2014. If Mr. Reeder is elected as a director it is expected that he will become a member of each of the below committees.

| <i>Director</i>                     | <i>Audit</i> | <i>Compensation</i> | <i>Nominating and Governance</i> |
|-------------------------------------|--------------|---------------------|----------------------------------|
| R. H. Dillon                        |              |                     |                                  |
| Randolph J. Fortener <sup>(1)</sup> | Chair        | Member              | Member                           |
| James F. Laird                      |              |                     |                                  |
| Bradley C. Shoup <sup>(2)</sup>     | Member       | Member              | Chair                            |
| Frances A. Skinner <sup>(3)</sup>   | Member       | Chair               | Member                           |

|                            |   |   |   |
|----------------------------|---|---|---|
| Number of Meetings in 2014 | 4 | 2 | 2 |
|----------------------------|---|---|---|

- (1) Mr. Fortener was appointed to the Compensation Committee in February 2014.
- (2) Mr. Shoup was appointed Chair of the Nominating and Governance Committee in February 2014.
- (3) Ms. Skinner was appointed to the Nominating and Governance Committee in February 2014.

**Compensation of Directors**

The Compensation Committee is responsible for periodically reviewing and recommending to the Board the compensation of non-employee directors. At the discretion of the Board, directors are eligible to receive stock-based awards under the Diamond Hill Investment Group, Inc. 2014 Equity and Cash Incentive Plan (the 2014 Plan ). The Compensation Committee has

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determined that the use of long-term cliff vesting restricted stock awards as the sole compensation for our non-employee directors is the most appropriate way to further align the interests of our directors with the long-term interests of our shareholders. These restricted stock grants are intended to compensate the directors for a long-term period of time and are intended to fully compensate directors for their services as directors and as members of committees of the Board. After the restricted stock grants vest, our Corporate Governance Guidelines prohibit the shares from being sold while the director remains on the Board, except that shares may be sold within the year the grants vest to pay taxes due as a result of the vesting.

The following table sets forth information regarding the compensation earned by, or paid to, directors who served on our Board in 2014. Mr. Dillon and Mr. Laird, who are, or were, executive officers of the Company during 2014, do not receive separate compensation for the director service and have been omitted from this table. **As discussed above, existing directors received no compensation during 2014.**

**Outstanding Stock Grants to Directors**

The below table shows the amount of unvested restricted stock grants outstanding to existing directors as of December 31, 2014 and the service period covered by the grant.

| <b><u>Name</u></b>                   | <b><u>Shares<br/>Granted</u></b> | <b><u>Service Period<br/>Covered</u></b> |          | <b><u>Grant-Date<br/>Fair Value</u></b> | <b><u>Grant<br/>Date</u></b> | <b><u>Vesting<br/>Date</u></b> |
|--------------------------------------|----------------------------------|--|----------|---|------------------------------|--------------------------------|
| Randolph J. Fortener                 | 6,000                            | 4/24/13                                  | 4/30/18  | \$452,940                               | 4/30/13                      | 4/30/18                        |
| Donald B. Shackelford <sup>(a)</sup> | 4,200                            | 1/1/12                                   | 4/30/15  | \$323,442                               | 2/22/12                      | 4/30/15                        |
| Frances A. Skinner                   | 6,000                            | 1/1/12                                   | 12/31/16 | \$462,060                               | 2/22/12                      | 1/1/17                         |
| Bradley C. Shoup                     | 6,000                            | 4/25/12                                  | 4/30/17  | \$454,140                               | 4/25/12                      | 4/30/17                        |

<sup>(a)</sup> Intended to represent service from January 1, 2012 until his scheduled retirement.

*Ownership and Retention Guidelines*

Our Corporate Governance Guidelines generally prohibit shares granted to our directors as compensation from being sold while the director remains on the Board. Therefore, we expect each non-employee director to hold for his or her entire term of service on the Board all of our shares granted to the director as compensation, except for sales of shares to pay taxes as discussed above.

**CORPORATE GOVERNANCE**

The Nominating and Governance Committee has general oversight responsibility for assessment and recruitment of new director candidates, as well as evaluation of director and board performance and oversight of our governance matters. The Committee originally adopted Corporate Governance Guidelines on February 25, 2010 and reviews them annually. The most current version of the Guidelines is available on our website, [ir.diamond-hill.com](http://ir.diamond-hill.com), under Corporate Governance on the right hand side of the site.

*Board Leadership and Composition*

We believe separating the roles of Chairman and CEO provides for a strong governance and oversight structure, and these roles have been separate since 2000. Mr. Shackelford has served as independent non-executive chairman since 2011 and Mr. Dillon has served as CEO since joining the Company in 2000. The Chairman approves Board agendas and schedules, chairs all executive sessions of the independent directors, acts as the liaison between the independent directors and management, oversees the information distributed in advance of Board meetings, is available to the Secretary to discuss and, as necessary, respond to shareholder communications to the Board, and calls meetings of the directors. Mr. Dillon assumed the role of Vice Chairman in 2014 and is expected to succeed Mr. Shackelford as Chairman of the Board when Mr. Shackelford retires coincident with the 2015 Annual Shareholder Meeting. As previously announced, Mr. Dillon expects to step down as CEO at the end of 2015. As a result, the expected dual role of Chairman and CEO by Mr. Dillon would be temporary and related specifically to succession transition.

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Currently, four of our six directors, as well as the new nominee for election, are independent under NASDAQ standards. In addition, the Nominating and Governance Committee, the Audit Committee, and the Compensation Committee are all currently comprised entirely of independent directors, and following the Annual Meeting, will be reconstructed to remain so. Overall, we believe that our Board structure is designed to foster critical oversight, good governance practices, and the interests of the Company and its shareholders.

Among other things, the Corporate Governance Guidelines address term limits of each director. Although we have a 10 year service limit for non-employee directors, the Guidelines authorize the Board to make exceptions to this limitation and permit directors to serve for an additional year, and the Board has made such exceptions in the past.

### *Board's Role in Risk Oversight*

The Board's role in our risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Company, including client investment results, and operational, financial, legal, regulatory and strategic risks. The Audit Committee is responsible for overseeing risks relating to our accounting matters, financial reporting and legal and regulatory compliance. To satisfy these oversight responsibilities, the Audit Committee meets regularly with management and the Company's independent registered public accounting firm. The Compensation Committee is responsible for overseeing risks relating to employment policies and our compensation and benefits programs. To satisfy these oversight responsibilities, the Compensation Committee meets regularly with management to understand the implications of compensation decisions, particularly the risks that our compensation policies pose to our finances and our relationship with employees.

### *Executive Leadership Team*

During 2014, Mr. Christopher M. Bingaman was named President and Ms. Lisa Wesolek was named Chief Operating Officer. As President, Mr. Bingaman is expected to succeed Mr. Dillon as Chief Executive Officer in January 2016. Effective January 1, 2015, Mr. Thomas Line was named Chief Financial Officer.

During 2014, the Company established an Executive Leadership Team and three divisional leadership teams. The members of the Executive Leadership Team include Mr. Dillon, Mr. Bingaman, Mr. Line, and Ms. Wesolek. Members of the Executive Leadership Team lead the three divisional leadership teams as indicated below:

Mr. Bingaman    Investment Leadership Team

Mr. Line        Administration Leadership Team

Ms. Wesolek    Distribution Leadership Team

The Company believes that the Executive Leadership Team and three divisional leadership teams is an appropriate and effective organizational structure for the Company.

### *Director Orientation and Continuing Education and Development*

When a new independent director joins the Board, the Company provides a formal orientation program for the purpose of providing the new director with an understanding of our operations and financial condition. In addition, each director is expected to maintain the necessary level of expertise to perform his or her responsibilities as a director. To assist the directors in maintaining such level of expertise, we may, from time to time, offer continuing education programs in addition to briefings during Board meetings relating to the competitive and industry

environment and the Company's goals and strategies.

*Director Qualifications and the Nominations Process*

The Nominating and Governance Committee believes that the nominees presented in this proxy statement would constitute a Board with an appropriate level and diversity of experience, education, skills, and independence. The Nominating and Governance Committee routinely considers the current composition of the Board, and whether changes should be made or additional directors should be added to the Board.

The Nominating and Governance Committee supervises the nomination process for directors. It considers the performance, independence, diversity, and other characteristics of our incumbent directors, including their willingness to serve, and any change in their employment or other circumstances in considering their nomination each year. The Nominating and Governance Committee also considers diversity of background and experience, as well as gender and other forms of diversity. We do not,

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however, have any formal policy regarding diversity in identifying nominees for a directorship, but rather we consider it among the various factors relevant to any particular nominee and the overall needs of the Board. In the event that a vacancy exists or the Company decides to increase the size of the Board, the Nominating and Corporate Governance Committee will identify, interview, examine, and make recommendations to the Board regarding appropriate candidates.

The Nominating and Governance Committee identifies potential candidates principally through suggestions from our directors and senior management. The committee may also seek candidates through informal discussions with third parties. We have not historically retained search firms to help identify director candidates and did not do so in identifying this year's nominees.

In evaluating potential candidates, the Nominating and Governance Committee considers, among other factors, independence from management, experience, expertise, commitment, diversity, number of other public company board and related committee seats held, potential conflicts of interest, and the composition of the Board at the time of the assessment. All candidates for nomination must:

- demonstrate strong character and integrity;
- have sufficient time to carry out their duties;
- have experience at senior levels in areas of expertise helpful to the Company and consistent with the objective of having a diverse and well-rounded Board; and
- have the willingness and commitment to assume the responsibilities required of a director of the Company.

In addition, candidates expected to serve on the Audit Committee must meet independence and financial literacy qualifications required by NASDAQ, the SEC, and other applicable laws and regulations. Candidates expected to serve on the Nominating and Governance Committee and on the Compensation Committee must meet independence qualifications set out by NASDAQ. The evaluation process of potential candidates also includes personal interviews and discussions with appropriate references. Once the Nominating and Governance Committee has selected a candidate, it recommends the candidate to the full Board for election if a vacancy occurs or is created by an increase in the size of the Board during the course of the year, or for nomination if the director is to be first elected by our shareholders. All directors serve for one-year terms and must stand for reelection annually.

The Nominating and Governance Committee does not currently have any specific policies regarding the consideration of director candidates recommended by shareholders due to a historical absence of shareholder recommendations. The Nominating and Governance Committee will consider shareholder recommendations for directors using the process and criteria set forth above. In the future, the Nominating and Governance Committee may in its discretion adopt policies regarding the consideration of director candidates recommended by shareholders. Shareholder recommendations for Board candidates must be directed in writing to the Company at 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215, Attention: Secretary, and must include the candidate's name, home and business contact information, detailed biographical data and qualifications, information regarding any relationships between the candidate and us within the last three years, and evidence of the recommending person's ownership of our common shares.

### *Certain Relationships and Related Person Transactions*

The Board recognizes that related person transactions present a heightened risk of conflicts of interest. We currently have no related person transactions reportable pursuant to Item 404(a) of SEC Regulation S-K and have not had any



such transactions in the recent past. As such, we do not believe it is necessary to have a written policy specifically dealing with related person transactions. The Audit Committee will review any potential related person transactions as they arise and are reported to the Board or the Audit Committee, regardless of whether the transactions are reportable pursuant to Item 404. No such transactions arose or were reviewed by the Audit Committee in 2014. For any related person transaction to be consummated or to continue, the Audit Committee must approve or ratify the transaction.

*Compensation Committee Interlocks and Insider Participation*

The members of the Compensation Committee during 2014 were Mr. Fortener, Mr. Shoup and Ms. Skinner. No director who served on the Compensation Committee during 2014 currently is, or during 2014 was, an officer, employee or former officer of the Company or had any relationship during 2014 requiring disclosure by us under Item 404 of SEC Regulation S-K. During 2014, none of our executive officers served as a member of the board of directors or compensation committee of any other company that has an executive officer serving as a member of our Board or Compensation Committee.

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**Executive Officers and Compensation Information**

During 2014, R. H. Dillon, James F. Laird, Chris Bingaman and Lisa Wesolek were the Company's only named executive officers. Mr. Dillon and Mr. Laird's experience is described above under the heading PROPOSAL 1 ELECTION OF DIRECTORS. Mr. Bingaman and Ms. Wesolek's experience is described below. The Company had no executive officers other than our named executive officers during 2014. Each named executive officer devotes his or her full time and effort to the affairs of the Company.

**Christopher M. Bingaman**, age 49, has been the President of the Company since 2014 and also serves as a Portfolio Manager. Mr. Bingaman joined Diamond Hill in 2001. From 1997 to March 2001, Mr. Bingaman was a Senior Equity Analyst for Nationwide Insurance. In 1997, Mr. Bingaman was an Equity Analyst for Dillon Capital Management. From 1990 to 1997, Mr. Bingaman held various positions at Fifth Third Bank, First Chicago NBD and NBD Bank. Mr. Bingaman has over 25 years of experience in the investment management industry.

Mr. Bingaman received his BA in Finance from Hillsdale College (cum laude), and his Master of Business Administration from the University of Notre Dame. Mr. Bingaman holds the Chartered Financial Analyst designation.

**Lisa M. Wesolek**, age 51, has been the Chief Operating Officer of the Company since 2014. Ms. Wesolek joined Diamond Hill in 2012. From 2008 to 2010, Ms. Wesolek was Senior Vice President, National Sales Manager for the Asset Management Group at Wells Fargo Funds Management. From 2005 to 2008, Ms. Wesolek was Managing Director and Head- Institutional Asset Management at Evergreen Investments Management. From 2004 to 2005, Ms. Wesolek was Managing Director, West Region Head for JP Morgan Asset Management. From 1994 to 2004, Ms. Wesolek was Managing Director for Banc One Investment Advisors Corporation. Ms. Wesolek has over 20 years of experience in the investment management industry.

Ms. Wesolek received her BS in Finance from Franklin University and holds the Series 7, 24 and 63 securities licenses with the Financial Industry Regulatory Authority.

**Compensation Discussion and Analysis**

In our Compensation Discussion and Analysis, we:

describe our compensation program objectives and how compensation for our named executive officers is determined; and

explain the tables and disclosures that follow.

This Compensation Discussion and Analysis presents compensation information for the following individuals:

- R. H. Dillon, who served as Chief Executive Officer in 2014;
- Christopher M. Bingaman, who served as President in 2014;
- James F. Laird, who served as Chief Financial Officer, Secretary and Treasurer in 2014; and
- Lisa M. Wesolek, who served as Chief Operating Officer in 2014.

*Background*

We are in the investment management industry. Human capital is the most important resource of companies in our industry. Attracting and retaining employees can be more difficult in our industry than in others because of how heavily our industry depends on the contributions of talented individuals. We have been able to attract and retain high-quality employees due to:

- our investment-centric culture;
- employee ownership in our business;
- our central Ohio location; and
- the nationally-competitive compensation we offer to our employees.

Compensation, which is a critical element in a business dependent on talented employees, has a particularly significant impact on profitability in industries like ours that are not capital intensive. This requires a balancing of the economics between our operating profit margin and rewarding the employees who generate our profits and produce investment results for our clients. As of March 5, 2015, our employees and directors owned approximately 31% of the Company. In contrast, many competitor

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firms are owned entirely by their employees and many publicly-traded asset managers are far less employee owned. Despite our unique ownership structure given our industry, we believe that industry norms are helpful benchmarks for evaluating the balancing effort.

At our 2014 Annual Meeting of Shareholders, we asked our shareholders to vote upon an advisory resolution to approve the compensation of our executive officers. The compensation of our named executive officers was approved by 98% of the votes cast on the matter. The Compensation Committee of the Board (the Committee) believes that the results of the advisory vote on executive compensation are supportive of our previous compensation practices and of its overall judgment related to the compensation practices of the Company and considered that endorsement in establishing the compensation awarded to our executive officers for 2014.

### *Compensation Program Objectives*

We seek to attract and retain people with integrity, intelligence and energy. All employees are paid a competitive base salary, provided with competitive benefits and participate in an annual cash and equity incentive compensation program. The amount of individual incentive awards is based on an assessment of individual performance, while the amount of the overall available incentive pool is based on (i) investment results in client portfolios, (ii), overall firm operating results, (iii) market compensation data, and (iv) the profitability of the firm compared to other investment management firms.

In addition to annual incentive compensation, upon commencing employment with the Company, most employees are awarded equity grants as an incentive to their continued employment. Generally, these awards cliff vest after five years of employment to promote employee retention and long-term employee ownership. The Company also seeks to increase employee ownership because it believes such ownership encourages employees to act and think like owners. While compensation amounts differ depending upon position, responsibilities, performance and competitive data, the Company seeks to reward all employees with similar compensation components based on these objectives.

### *Rewards Based on Performance*

Our primary business objective is to meet our fiduciary duty to clients. Specifically, our focus is on long-term, five-year investment returns, with goals defined as rolling five-year periods in which client returns are sufficiently above relevant passive benchmarks, rank in the top quartile of similar investment strategies, and exceed a sufficient absolute return for the risk associated with the asset class. As it relates to our investment professionals, their compensation program is designed to reward performance that supports these objectives. For those employees who are not a part of our investment team the compensation program varies, but is based on rewarding individual performance that helps us meet our fiduciary duty to clients and shareholders. We seek to fulfill our fiduciary duty to shareholders by managing the firm and its assets to increase shareholder value over time. Over the past five years, our annualized total shareholder return was 26.0% compared to a 15.6% return for the Russell 2000 Index.

### *Compensation Setting Process*

*Role of the Compensation Committee.* The Committee has the overall responsibility for evaluating and approving the structure, operation and effectiveness of our compensation plans, policies and programs for all employees. The Committee consists of Mr. Fortener, Mr. Shoup and Ms. Skinner. Ms. Skinner serves as the Chair. Each member of the Committee is an outside director for purposes of Section 162(m) of the Internal Revenue Code (the Code), is a non-employee director for purposes of Section 16(b) of the Securities Exchange Act of 1934, and meets NASDAQ independence requirements. The Committee is specifically charged to:

review and approve the corporate goals and objectives relevant to the compensation of the CEO, to evaluate the CEO's performance in light of these goals and objectives, and, based on this evaluation, make recommendations to the Board for the independent directors to approve the CEO's compensation level (including any long-term incentive or other compensation under any incentive-based or equity-based compensation plan);

review management's recommendations and make recommendations to the Board with respect to director and other non-CEO executive officer compensation; provided, however, that the Committee has full decision-making authority with respect to compensation intended to be performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code;

retain compensation consultants as it deems necessary to assist in its evaluation of director, CEO or other senior executive compensation programs or arrangements. The Committee also has the authority to obtain advice and assistance from internal or external legal, accounting or other advisors;

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review management's recommendations and make recommendations to the Board with respect to incentive-based compensation and equity-based compensation plans and programs that are subject to Board approval, and that may be applicable to all or any portion of the employees of the Company and/or its subsidiaries; and exercise all power and authority of the Board in the administration of equity-based incentive compensation plans.

The Committee considers the sum of all pay elements when reviewing annual compensation recommendations for the named executive officers. Although the framework for compensation decision-making is tied to the Company's overall financial performance and the creation of long-term shareholder value, the Committee retains the discretion to make recommendations to the Board for the independent directors to approve individual compensation based on other performance factors, such as demonstrated management and leadership capabilities and the achievement of certain investment results for client accounts and other strategic operating results.

*Role of Management.* The Company's CEO evaluates the President, CFO and COO as part of our annual review process and makes recommendations to the Committee regarding all elements of executive compensation paid to them. Changes in executive compensation proposed by the CEO are based on the individual's performance, the compensation of individuals with comparable responsibilities in competing or similar organizations, and the profitability of the Company. At the Committee's request, management attends Committee meetings to provide general employee compensation and other information to the Committee, including information regarding the design, implementation and administration of our compensation plans. The Committee also meets in executive sessions without the presence of any executive officer whose compensation the Committee is scheduled to discuss.

*Use of Compensation Consultants and Surveys in Determining Executive Compensation.* The Committee's written charter gives it the authority to retain an independent outside executive compensation consulting firm to assist in evaluating policies and practices regarding executive compensation and provide objective advice regarding the competitive landscape. Historically, however, the Committee has not engaged compensation consultants, and did not do so in 2014.

Each year the Committee obtains and summarizes an asset management industry pay analysis prepared by McLagan Partners, a compensation specialist focusing on the asset management industry. The companies in the McLagan Partners analysis include approximately 150 public and private asset management companies with which we compete. This analysis provides the Committee with a general overview of compensation trends in the asset management industry. The Committee does not define a specific peer group, but rather takes a broad view of the analysis. The Committee does not set any compensation elements or levels based on targeting a certain percentile from the survey, but rather sets compensation that it believes to be both competitive and based on the executive's value to the Company. The survey is just one of many factors that the Committee considers when determining executive compensation. Management and the Committee believe this broad view of the analysis is appropriate because we compete with both public and private asset management firms regardless of their size and scope of operations.

### *Elements of Compensation*

*Base Salary.* Base salaries for the named executive officers are intended to provide a fixed level of cash compensation that is appropriate given the executive's role in the organization. Generally, base salaries are determined by (i) scope of responsibility and complexity of position, (ii) performance history, (iii) tenure of service, (iv) internal equity within the Company's salary structure, and (v) relative salaries of persons holding similar positions at other companies within the investment management industry. Base salaries are designed to compensate knowledge and experience. In February 2014, the Committee made the determination not to increase the base salaries of the named executive officers for fiscal year 2014. Consistent with our desire to have the majority of total compensation paid to named

executive officers at risk in the form of incentive compensation, a significant majority of total compensation of our executive officers was paid in the form of either cash bonuses and/or long-term equity grants awarded in the current year or prior years.

*Annual Cash Bonuses.* In March 2011, we entered into an amendment and restatement of our employment agreement with Mr. Dillon. We agreed to amend and restate Mr. Dillon's employment agreement to reflect the mutual desire of the Company and Mr. Dillon that he remain CEO for the next five years. The amended and restated agreement entitles Mr. Dillon to, among other things, an annual cash bonus equal to at least 5% of the Company's operating income, subject to an annual cap of \$640,000. Mr. Dillon earned a \$640,000 cash bonus for 2014 because 5% of the Company's operating income for fiscal year 2014 exceeded \$640,000. The Committee believes this formula to determine a cash bonus is appropriate for our CEO, whose effectiveness and responsibility is most closely tied to the amount of our operating income, capping the award at an amount that Mr. Dillon and the Committee believe is appropriate given broad market compensation data and the additional value of the separate restricted stock award to Mr. Dillon in 2011 (which is described in the following section).

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The Committee awarded a discretionary cash bonus to Mr. Laird, to reward him for his strong performance and overall contributions to the Company in fiscal year 2014. The Committee believes that structuring Mr. Laird's annual cash bonus as a discretionary cash bonus provides the Committee with the flexibility to consider all aspects of Mr. Laird's performance and contributions to the Company which, for a CFO, may not be as directly tied to our operating income. In determining the amount of Mr. Laird's cash bonus, the Committee considered the Company's overall operating results for 2014, contributions by Mr. Laird that were not reflected in our operating results, and broad market compensation data.

The Committee awarded a discretionary cash bonus to Mr. Bingaman, to reward him for his strong performance and overall contributions to the Company in fiscal year 2014. The Committee believes that structuring Mr. Bingaman's annual cash bonus as a discretionary cash bonus provides the Committee with the flexibility to consider all aspects of Mr. Bingaman's performance and contributions to the Company as President, Co-Chief Investment Officer, and Portfolio Manager. In determining the amount of Mr. Bingaman's cash bonus, the Committee considered the Company's overall operating results for 2014, the investment results in client portfolios, client service, overall contributions to the investment team, and broad market compensation data.

*Restricted Stock Award to Mr. Dillon.* In May 2011, the Committee awarded 100,000 shares of performance-based restricted stock to Mr. Dillon pursuant to the Company's 2011 Plan. All of the shares will vest on January 1, 2016, if the Company's cumulative operating profit (defined as the Company's total revenue during the period beginning on January 1, 2011 and ending on December 31, 2015, excluding any investment income and gains and the revenue of the Company's subsidiaries Beacon Hill Fund Services, Inc. and BHIL Distributors, Inc. (collectively, "Beacon Hill"), less the Company's total operating expenses during such period, excluding Beacon Hill expenses, any investment losses and all taxes) equals or exceeds \$75,000,000. The results of Beacon Hill are excluded from the cumulative operating profit because it is a separate subsidiary of the Company and is not yet material to the overall financial results of the Company. If the Company's cumulative operating profit during such period is less than \$75,000,000, a number of shares of restricted stock equal to 100,000 multiplied by a fraction, the numerator of which will be the Company's actual cumulative operating profit during such performance period and the denominator of which will be \$75,000,000, will vest on January 1, 2016. Any shares of restricted stock that do not vest will be forfeited on such date. All shares of restricted stock that vest on January 1, 2016 will remain subject to restrictions on sale or transfer following the vesting date. The restrictions on sale or transfer will lapse with respect to 20% of the vested shares of restricted stock on each anniversary of the vesting date. If Mr. Dillon dies or is disabled prior to December 31, 2015, a number of shares of restricted stock equal to 100,000 multiplied by a fraction, the numerator of which will be the number of whole months of service elapsed between January 1, 2011 and the date of death or disability and the denominator of which will be 60, will vest and become immediately transferable without restriction. If Mr. Dillon's employment is terminated prior to January 1, 2016 without Cause or for Good Reason (each as defined in Mr. Dillon's amended and restated employment agreement), a number of shares of restricted stock equal to 100,000 multiplied by the lesser of (i) a fraction, the numerator of which will be the Company's actual cumulative operating profit during the period beginning on January 1, 2011 and ending on the date of termination of employment and the denominator of which will be \$75,000,000, and (ii) a fraction, the numerator of which will be the number of whole months of service elapsed between January 1, 2011 and the date of termination of employment and the denominator of which will be 60, will vest and become immediately transferable without restriction. In the event of a Change in Control (as defined in Mr. Dillon's amended and restated employment agreement), all 100,000 shares of restricted stock will immediately vest and become transferable without restriction.

This restricted stock award is intended to comprise all of Mr. Dillon's equity-based compensation for the 2011 fiscal year through the 2015 fiscal year, and no additional equity awards to Mr. Dillon during that period are contemplated. The Committee believes this compensation structure strongly aligns the long-term interests of Mr. Dillon with those of the Company and its shareholders and better advances the objectives of our compensation program than the annual



compensation structure used in prior years.

In December 2012, we amended Mr. Dillon's award agreement made under the 2011 Plan to clarify restrictions on dividends paid on the 100,000 share performance-based restricted stock grant described above. The amendment caused dividends paid in 2012, 2013, and 2014 on the 100,000 share performance-based restricted stock grant to be placed in escrow and to be subject to the same vesting requirements as the stock grant. When shares subject to the award vest, the related dividends held in escrow will be transferred to Mr. Dillon.

*Restricted Stock Unit Award to Mr. Bingaman.* In February 2014, the Committee awarded 14,000 shares of performance-based restricted stock units ( RSUs ) to Mr. Bingaman pursuant to the Company's 2011 Plan covering the performance period of January 1, 2014 through December 31, 2015. 7,000 RSUs will vest on each of January 1, 2015 and January 1, 2016, respectively, if the Company's annual operating profit for each calendar year period (defined as the Company's total revenue during each calendar year period excluding any investment income and gains, less the Company's total operating expenses during such

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period and any investment losses and all taxes) equals or exceeds \$25,000,000. If the Company's annual operating profit during in either calendar year period is less than \$25,000,000, a reduced number of RSUs will vest on January 1 of 2015 or 2016, respectively, according to a schedule that scales down from 7,000 RSUs at \$25,000,000 in operating profit to zero RSUs at or below \$0 in operating profit. Any RSUs that do not vest will be forfeited on such date. All RSUs that vest will convert to shares of the Company's common stock and will be subject to restrictions on sale or transfer for five years following the vesting date. This RSU award is intended to comprise all of Mr. Bingaman's equity-based compensation for the 2014 and 2015 compensation years.

*Discretionary Stock Award to Mr. Laird.* The Committee awarded a discretionary stock award to Mr. Laird to reward him for his strong performance and overall contributions to the Company in fiscal year 2014. The Committee believes that paying a discretionary stock bonus to Mr. Laird provides the Committee with the flexibility to consider all aspects of Mr. Laird's performance and contributions to the Company as well as properly compensate him for the value he provided to the Company in fiscal year 2014. In addition, this stock award, while immediately vested, is restricted from sale or transfer for five years. While Mr. Laird retired as CFO at the end of 2014, the Committee believes that executive officers should continue to hold stock awards for five years following their retirement to align them with the long-term interests of the Company and its shareholder despite their short-term employment outlook. In determining the amount of the stock award, the Committee considered the contributions Mr. Laird made to the Company in 2014, specifically his leadership in our day-to-day management, oversight of financial matters, compliance, and internal controls, all of which contribute to our overall operating results, which continued to be strong in 2014. In summary, the Committee considered contributions made by Mr. Laird in 2014 along with a review of broad market compensation data for executives in similar roles and determined that this discretionary award was reflective of his performance in 2014.

*Restricted Stock Award to Ms. Wesolek.* At the time of her hiring in July 2012, management granted Ms. Wesolek 40,000 shares of restricted stock as both an incentive to employment and as long-term incentive compensation. These shares vest at various times over the five-year period from grant date through July 2017. Upon vesting, the shares will be subject to further restrictions on sale or transfer for an additional five years from each respective vesting date. Ms. Wesolek was hired to lead the sales, marketing, client service and distribution efforts of the Company and was named Chief Operating Officer in 2014. Management believes this compensation structure strongly aligns the long-term interests of Ms. Wesolek with those of the Company and its shareholders. This restricted stock award is intended to comprise all of Ms. Wesolek's incentive compensation for the five-year period of July 2012 through June 2017, and no additional cash or equity awards to Ms. Wesolek during that period are contemplated.

*Retirement Plan Benefits.* We provide retirement benefits through the Diamond Hill Investment Group 401(k) Plan and Trust. Each named executive officer is entitled to participate in this plan on the same terms and conditions as all other employees. The 401(k) Plan does not involve any guaranteed minimum or above-market returns, as plan returns depend on actual investment results.

*Deferred Compensation Plans.* We have two Deferred Compensation Plans: the Diamond Hill Fixed Term Deferred Compensation Plan (the "Fixed Term Plan") and the Diamond Hill Variable Term Deferred Compensation Plan (the "Variable Term Plan"), (individually, the "Plan," and collectively the "Deferred Compensation Plans"). Each named executive officer is eligible to participate in one of the Plans, along with certain other persons employed by the Company or any of its affiliates. The terms and conditions of the Plans are described in more detail under the heading "Pension Plans and Non-Qualified Deferred Compensation" below.

*Other Benefits and Perquisites.* We do not provide supplemental retirement plan benefits to our named executive officers. As a general rule, we do not provide any perquisites or other personal benefits to our named executive officers that are not offered on an equal basis to all employees. Our named executive officers are entitled to participate

in benefit programs that entitle them to medical, dental, and short-term and long-term disability insurance coverage that are available to all employees.

*Post-Employment Payments.* Only Mr. Dillon, has an employment contract which provides for payments upon termination of employment. More information on Mr. Dillon's employment agreement and termination payments under the agreement is set forth under the heading Employment Agreements and Change in Control Benefits.

**Table of Contents****Stock Ownership Guidelines**

In February 2010, the Board adopted stock ownership guidelines for our named executive officers to further align their interests with those of our shareholders. The below table provides the target ownership level reflected in the guidelines and actual shares owned as of December 31, 2014. Each named executive officer hold shares well in excess of the amounts required under the guidelines.

| <b>Name</b>             | <b>Title</b>            | <b>Target Ownership Level</b> | <b>Target Number of Shares(a)</b> | <b>Number of Shares Owned (b)</b> | <b>Ownership Guideline Met</b> |
|-------------------------|-------------------------|-------------------------------|-----------------------------------|-----------------------------------|--------------------------------|
| R. H. Dillon            | CEO                     | 5x Salary                     | 13,040                            | 300,380                           | Yes                            |
| Christopher M. Bingaman | President               | 5x Salary                     | 9,055                             | 35,107                            | Yes                            |
| James F. Laird          | Chief Financial Officer | 3x Salary                     | 4,347                             | 74,582                            | Yes                            |
| Lisa M. Wesolek         | Chief Operating Officer | 2x Salary                     | 2,898                             | 29,600                            | Yes                            |

(a) Based on a per share price of \$138.04 which was the closing price of our common shares on December 31, 2014, and the respective base salaries of our named executive officers as of that date.

(b) Includes any unvested restricted stock, restricted stock units, and shares held in the Diamond Hill 401k Plan.

*Risks Related to Compensation Policies and Practices*

As part of its oversight of our executive and non-executive compensation programs, the Compensation Committee considers how our current compensation programs, including the incentives created by compensation awards, affect the Company's risk profile. In addition, the Committee reviews our compensation policies, particularly the incentives that they create, to determine whether they encourage an appropriate level of risk-taking and do not present a significant risk to the Company. The Compensation Committee also considered the following risk mitigating factors:

- current compensation programs reward portfolio managers and research analysts on trailing five-year investment performance in client accounts;
- a majority of incentive compensation is in the form of long-term equity-based awards;
- sale restriction periods for equity-based compensation awards encourage executives and other employees to focus on the long-term performance of the Company;
- the Committee has discretionary authority to adjust annual incentive awards;
- the Company has internal controls over financial reporting and other financial, operational and compliance policies and practices; and
- base salaries are consistent with executives' responsibilities so that they are not motivated to take excessive risks to achieve a reasonable level of financial security.

Based on this review, the Committee has concluded that our compensation policies and procedures are not reasonably likely to have a material adverse effect on the Company.

*Compensation Recoupment and Restitution Policy*

Upon the recommendation of the Compensation Committee, our Board of Directors has adopted a compensation recoupment and restitution policy that applies to all incentive compensation received by all employees, including our named executive officers. Under the policy, we may recover all or a portion of incentive compensation (or pay out additional incentive compensation) related to awards made after the adoption of the policy, in three general situations:

if, due to error or malfeasance the previously determined incentive pool, or an individual award, is either too large (or too small), then any overpayment made to an employee may be returned to Company or an additional payment may be made to an associate;

if an employee violates an important Company policy or acts in an unlawful manner, then we may recoup the employee's incentive compensation; and

if an employee, who is part of the financial statement preparation process, commits wrongdoing, then we may recoup the employee's incentive compensation.

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The policy is intended to provide enhanced safeguards against certain types of misconduct and provide enhanced protection to and alignment with shareholders. These provisions are in addition to any policies or recovery rights that are provided under applicable laws, including the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act. Beginning in 2013, all awards are subject to this policy.

**Summary Compensation Table**

The following table sets forth the total compensation paid to or earned by our named executive officers for services rendered in the years indicated. Additional information on the elements of compensation included in the table below is available under the Compensation Discussion and Analysis section.

**Name****and Principal**

| <b>Position</b>  | <b>Year</b> | <b>Salary</b> | <b>Bonus<sup>(1)</sup></b> | <b>Stock Awards</b>         | <b>All Other Compensation<sup>(4)</sup></b> | <b>Total</b> |
|--|-------------|---------------|----------------------------|-----------------------------|---|--------------|
| <b>R. H. Dillon</b><br><i>CEO</i>  | 2014        | \$ 360,000    | \$ 640,000                 | \$                          | \$ 35,400                                   | \$ 1,035,400 |
|  | 2013        | \$ 360,000    | \$ 640,000                 | \$                          | \$ 34,800                                   | \$ 1,034,800 |
|  | 2012        | \$ 360,000    | \$ 640,000                 | \$                          | \$ 35,064                                   | \$ 1,035,064 |
| <b>Christopher M. Bingaman</b><br><i>President</i>                               | 2014        | \$ 250,000    | \$ 400,000                 | \$ 1,521,669 <sup>(2)</sup> | \$ 36,300                                   | \$ 2,207,969 |
| <b>James F. Laird</b><br><i>Secretary, Treasurer and Chief Financial Officer</i> | 2014        | \$ 200,000    | \$ 550,000                 | \$ 250,000 <sup>(3)</sup>   | \$ 26,800                                   | \$ 1,026,800 |
|  | 2013        | \$ 200,000    | \$ 550,000                 | \$ 250,000 <sup>(3)</sup>   | \$ 26,800                                   | \$ 1,026,800 |
|  | 2012        | \$ 200,000    | \$ 250,000                 | \$ 500,000 <sup>(3)</sup>   | \$ 26,532                                   | \$ 976,532   |
| <b>Lisa M. Wesolek</b><br><i>Chief Operating Officer</i>                         | 2014        | \$ 200,000    | \$                         | \$                          | \$ 29,600                                   | \$ 229,600   |

(1) Mr. Dillon was granted a bonus award in accordance with the terms of his employment contract. Mr. Bingaman and Mr. Laird were granted a discretionary bonus award from the Company's bonus pool, which was not based upon any pre-established performance goals. Mr. Laird's amount for 2013 and 2014 includes a \$300,000 cash bonus and \$250,000 originally made as a stock award with respect to which Mr. Laird elected to defer 50% in cash to the Fixed Term Plan. See the Compensation Discussion and Analysis section above for a further description of Mr. Dillon's, Mr. Bingaman's, and Mr. Laird's cash bonus awards for fiscal year 2014.

- (2) This award represents 14,000 restricted stock units ( RSUs ) awarded to Mr. Bingaman on February 24, 2014 as part of a long-term performance-based incentive program under the 2011 Plan and constitutes the stock portion of Mr. Bingaman s incentive compensation for the years 2014 and 2015. 7,000 RSUs vested on January 1, 2015 and the other 7,000 RSUs are scheduled to vest on January 1, 2016, both subject to the achievement of performance goals established by the Compensation Committee and described above in the Compensation Discussion and Analysis section. The value shown represents the full grant date fair value which was determined by reducing the grant-date price of the shares by the present value of the dividends expected to be paid on the underlying shares during the requisite service period, discounted at the appropriate risk-free interest rate. Any RSUs that vest will convert into an equivalent number of shares of the Company and will be subject to further restrictions from transfer or sale for a five-year period following the respective vesting date.
- (3) Represents the full grant date fair value computed by multiplying the total number of shares granted by the closing price of the shares on the grant date. These shares were awarded to Mr. Laird under the Company s 2011 or 2014 Plan as discretionary partial payment for amounts earned under our 2014, 2013, and 2012 annual incentive plans. All shares were fully vested on the grant date but were restricted from sale for five years. The below table shows the details of the specific number of shares granted for each annual incentive plan year:

| <b>Name</b>    | <b>Incentive Plan Year</b> | <b>Shares Granted</b> | <b>Grant Date</b> | <b>Sale Restriction Period</b> |
|----------------|----------------------------|-----------------------|-------------------|--------------------------------|
| James F. Laird | 2014                       | 1,777                 | February 27, 2015 | Five Years                     |
|                | 2013                       | 2,130                 | February 28, 2014 | Five Years                     |
|                | 2012                       | 6,405                 | February 20, 2013 | Five Years                     |

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(4) The following types of compensation are included in the all other compensation column:

| Name                    | Year | Contributions<br>to Contributions to Health<br>Savings |                        |           |
|-------------------------|------|--|------------------------|-----------|
|                         |      | Company 401k Plan <sup>(a)</sup>                       | Account <sup>(a)</sup> | Total     |
| R. H. Dillon            | 2014 | \$ 31,200  | \$ 4,200               | \$ 35,400 |
|                         | 2013 | \$ 30,600  | \$ 4,200               | \$ 34,800 |
|                         | 2012 | \$ 30,000  | \$ 5,064               | \$ 35,064 |
| Christopher M. Bingaman | 2014 | \$ 30,000  | \$ 6,300               | \$ 36,300 |
| James F. Laird          | 2014 | \$ 24,000  | \$ 2,800               | \$ 26,800 |
|                         | 2013 | \$ 24,000  | \$ 2,800               | \$ 26,800 |
|                         | 2012 | \$ 24,000  | \$ 2,532               | \$ 26,532 |
| Lisa M. Wesolek         | 2014 | \$ 24,000  | \$ 5,600               | \$ 29,600 |

(a) The Company contributions to the Company 401k Plan and employee Health Savings Accounts are offered to all employees of the Company and its affiliates.

**Grants of Plan Based Awards for 2014**

The following table sets forth information regarding annual incentive plan awards to each of the named executive officers for the year ended December 31, 2014.

| Name                    | Grant Date | Compensation Committee Action Date | Estimated Possible Payouts            |                    | Value of Stock and Options Awards \$ |
|-------------------------|------------|------------------------------------|---------------------------------------|--------------------|--------------------------------------|
|                         |            |                                    | Under Equity Incentive Plan Awards(2) | Target # Maximum # |                                      |
| R.H. Dillon             |            |                                    |                                       |                    |                                      |
| Christopher M. Bingaman | 2/24/14    | 2/24/14                            | 14,000                                |                    | \$ 1,521,669                         |
| James F. Laird          | 2/27/15    | 2/23/15                            | 1,777                                 |                    | \$ 250,000                           |
| Lisa M. Wesolek         |            |                                    |                                       |                    |                                      |

(1)



The Compensation Committee Action Date represents the date on which the Committee authorized the equity-based award.

- (2) The amounts in these columns represents shares of restricted stock or restricted stock units awarded pursuant to the 2011 or 2014 Plan, which are described in detail above under the heading Compensation Discussion and Analysis.

**Outstanding Equity Awards at December 31, 2014**

The following table summarizes all outstanding equity awards held by our named executive officers as of December 31, 2014. Mr. Laird had no outstanding equity awards at December 31, 2014.

| Name                    | Stock Awards   |  |
|-------------------------|--|--|
|                         | Equity Incentive Plan Awards:<br>Number of Unearned Shares That have Not Vested <sup>(1)</sup> | Equity Incentive Plan Awards:<br>Market or Payout Value of Unearned Shares That Have Not Vested <sup>(5)</sup> |
| R. H. Dillon            | 100,000 <sup>(2)</sup>   | \$ 13,804,000  |
| Christopher M. Bingaman | 14,000 <sup>(3)</sup>  | \$ 1,932,560   |
| James F. Laird          |  | \$   |
| Lisa M. Wesolek         | 15,000 <sup>(4)</sup>  | \$ 2,070,600   |

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- (1) The amount in this column represents shares of restricted stock or restricted stock units awarded pursuant to either the 2011 Plan and 2014 Plan, which are described in detail above under the heading Compensation Discussion and Analysis.
- (2) These shares will vest on January 1, 2016, subject to the achievement of performance goals established by the Compensation Committee and Mr. Dillon's continued employment with the Company on that date.
- (3) 7,000 of these shares vested on January 1, 2015 and the other 7,000 are scheduled to vest on January 1, 2016, subject to the achievement of performance goals established by the Compensation Committee and Mr. Bingaman's continued employment with the Company on that date.
- (4) These shares are scheduled to vest in the amount of 5,000 shares each in December 1, 2015, December 1, 2016, and July 1, 2017, respectively, subject to Ms. Wesolek's continued employment with the Company on those respective dates.
- (5) The amount in this column represents the value of the shares shown multiplied by \$138.04, the closing market price of our common shares as of December 31, 2014.

**Option Exercises and Stock Vested for 2014**

None of the named executive officers exercised any options during 2014. The following table sets forth information with respect to the only stock awards vested in 2014.

| Name                    | Stock Awards                         |                           |
|-------------------------|--------------------------------------|---------------------------|
|                         | Number of Shares Acquired on Vesting | Value Realized on Vesting |
| R. H. Dillon            |                                      | \$                        |
| Christopher M. Bingaman | 6,391                                | \$ 750,000                |
| James F. Laird          | 2,130                                | \$ 250,000                |
| Lisa M. Wesolek         | 5,000                                | \$ 665,550                |

**Pension Plans and Non-Qualified Deferred Compensation**

We do not maintain any pension plans for named executive officers or other employees. We offer to our named executive officers and certain other employees the opportunity to participate in two Non-Qualified Deferred Compensation Plans: the Fixed Term Plan and the Variable Term Plan (the Deferred Compensation Plans).

*Deferrals of Incentive Compensation.*

Pursuant to the Deferred Compensation Plans, participants may elect to defer up to 50% of the stock portion of their annual bonus and up to 100% of the cash portion of their annual bonus for a plan year (the calendar year). Generally, the participant must submit a deferral election by December 31 of the year before the services are to be performed. After the applicable deadline, a deferral election is irrevocable for that plan year except under circumstances set forth in the Deferred Compensation Plan.

#### *Earnings*

The deferred incentive compensation, if any, is credited to an account for that plan year. The participant is 100% vested in the account, although the account is subject to the terms and conditions of the Company's Compensation Recoupment and Restitution Policy, described above. The account will be credited with earnings and losses based on the performance of the investment selections in the participant's account, which only include Diamond Hill Funds.

#### *Plan Funding*

The Deferred Compensation Plans are unfunded, unsecured promises by the Company to pay the account balances under the Deferred Compensation Plans at a later date. Participants have only the rights of general unsecured creditors of the Company and do not have any interest in or right to any specific asset of the Company.

**Table of Contents***Distributions*

Under the Fixed Term Plan, the account for each Plan Year will be distributed in (i) a single lump sum payment within 90 days following the fifth anniversary of the date the Incentive Compensation was deferred or (ii) in up to five substantially equal annual installments beginning on the January 1 following the fifth anniversary of the date such Incentive Compensation was deferred and on each January 1 thereafter, except in the event of death, Disability or a Change in Control.

Under the Variable Term Plan, the participant must elect when they wish to receive distributions. Generally, the participant may elect to receive the account (i) in a single lump sum payment within 90 days following either the termination of employment, or a specified date which is at least five years after the annual bonus was deferred; or (ii) in substantially equal annual installments for up to fifteen years beginning on the January 1 following either (A) the termination of employment and on each January 1 thereafter, or (B) on a specified date which is at least five years after the annual bonus was deferred and on each January 1 thereafter.

In the event of death or Disability (as defined in the Deferred Compensation Plans), the participant's account will be distributed to the participant or the participant's beneficiary, as applicable, in a lump sum within 90 days after the event. In the event that the Company undergoes a Change in Control (as defined in the Plans), the account will be distributed in a lump sum within 30 days after the Change in Control.

During fiscal year 2014, Mr. Laird contributed to the Fixed Term Deferred Compensation Plan. None of the other named executive officers contributed to the Deferred Compensation Plans, and none had a balance under such plans as of December 31, 2014. The following table sets forth certain information with respect to Mr. Laird's account under the Fixed Term Deferred Compensation Plan.

| Name           | Non-Qualified Deferred Compensation         |  |  |                                      |
|----------------|---|--|--|--------------------------------------|
|                | Executive Contributions in Last Fiscal Year | Registrant Contributions in Last Fiscal Year | Aggregate Earnings in Last Fiscal Year | Aggregate Withdrawals/ Distributions |
| James F. Laird | 250,000                                     |  | 14,050                                 |                                      |

**Employment Agreements and Change in Control Benefits**

We currently have an employment agreement with Mr. Dillon. A description of the agreement is set forth below. We are not a party to an employment agreement with any other employee and are not obligated to provide change in control benefits to any employee other than Mr. Dillon.

In March 2011, we entered into an amended and restated employment agreement with Mr. Dillon. The agreement has a current expiration date of January 1, 2016. The agreement provides for an annual salary of \$360,000, which may be increased (but not reduced) by the Board annually, plus an annual cash bonus of at least 5% of the Company's operating income, with a maximum annual cash bonus of \$640,000. Mr. Dillon also received a restricted stock award of 100,000 shares that vests on January 1, 2016 if performance criteria established by the Compensation Committee are satisfied and Mr. Dillon remains employed with the Company on that date. The performance criteria and vesting provisions of Mr. Dillon's restricted stock award are discussed more thoroughly in the Compensation Discussion and Analysis section above. Mr. Dillon's employment agreement also entitles him to receive health insurance and six weeks paid vacation annually and to participate in other benefit programs offered to employees. The agreement also restricts Mr. Dillon from competing with the Company during the term of the agreement and for one year following

termination of his employment and provides that he will at all times maintain the confidentiality of Company information.

If we terminate Mr. Dillon's employment without Cause (as defined in Mr. Dillon's amended and restated employment agreement), he would be entitled to the following payments, which are quantified to reflect the amounts he would have received had his employment been terminated at December 31, 2014:

1. his accrued but unpaid base salary and vacation and unreimbursed business expenses as of the date of termination (\$0 at December 31, 2014);

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2. payments, if any, under other benefit plans and programs in effect at the time (\$0 at December 31, 2014; we have no benefit plans that would result in payments upon termination);
3. a single lump sum payment equal to six months of his base salary at his annual salary rate in effect at the date of termination (\$180,000 at December 31, 2014);
4. beginning in the seventh month after the date of termination, six monthly payments of his monthly base salary (an aggregate of \$180,000 at December 31, 2014);
5. any portion of the restricted stock award of 100,000 shares as provided in the award agreement (60,000 shares at December 31, 2014);
6. a lump sum payment equal to the amount, if any, he received as an annual cash bonus for the preceding year (\$640,000 at December 31, 2014);
7. his accrued but unpaid annual cash bonus from the year prior to the date of termination (\$0 at December 31, 2014); and
8. a pro rata portion of the annual cash bonus (\$640,000 at December 31, 2014).

Mr. Dillon may terminate his employment for Good Reason (as defined in Mr. Dillon's amended and restated employment agreement), which generally includes reduction of his annual base salary or annual cash bonus, permanent or consistent assignment to him of duties inconsistent with his position and authority, a requirement that he no longer report directly to the Board, or a breach by the Company of his employment agreement. If he terminates his employment for Good Reason, Mr. Dillon is entitled to all of the payments to which he would be entitled in the event he is terminated without Cause, except for the payment set forth in number 7 above.

If Mr. Dillon's employment terminates due to his death or disability, if the employment agreement terminates in accordance with its terms or if we terminate Mr. Dillon for Cause (as defined in Mr. Dillon's amended and restated employment agreement), he will be entitled to receive the payments set forth in numbers 1 and 2 above. In the event of his death, he will also receive the payments described in numbers 1, 2, 5, and 8 above. In the event of disability, he will also receive the payments described in numbers 1, 2, 5, 7, and 8 above. Under the employment agreement, Cause generally includes material violations of our employment policies, conviction of crime involving moral turpitude, violations of securities or investment adviser laws, causing us to violate a law which may result in penalties exceeding \$250,000, materially breaching the employment agreement, or fraud, willful misconduct, or gross negligence in carrying out his duties.

In the event of a Change in Control (as defined in Mr. Dillon's amended and restated employment agreement), all 100,000 shares of restricted stock would immediately vest and become transferable without restriction in accordance with the terms of the award agreement applicable to the restricted stock award. Additionally, if within 24 months after the occurrence of a Change in Control, Mr. Dillon's employment is terminated by the Company for any reason other than death, disability or for Cause, or Mr. Dillon terminates his employment for Good Reason, he will be entitled to the following payments from us or our successor, in addition to the applicable payments set forth in numbers 1 through 8 above:

- a single lump sum payment equal to his annual base salary and annual cash bonus payable to him for the most recently completed fiscal year (\$1,000,000 at December 31, 2014); and
- a single lump sum payment equal to 12 months of premium payments for coverage for Mr. Dillon and his family under our group health plan (\$6,050 at December 31, 2014).

If any payments to Mr. Dillon in connection with a Change in Control would constitute excess parachute payments under applicable tax laws, Mr. Dillon will receive gross-up payments in an amount that covers any taxes, interest, penalties, additional taxes or costs incurred and leaves Mr. Dillon with the amount he would have retained if the payments he received upon the Change in Control had not constituted excess parachute payments.



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**Compensation Committee Report**

The Board's Compensation Committee has submitted the following report for inclusion in this Proxy Statement:

We have reviewed and discussed the Compensation Discussion and Analysis contained in this Proxy Statement with management. Based on that review and discussion, we recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement and the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Submitted by the Compensation Committee of the Board of Directors:

Frances A. Skinner, Chair

Randolph J. Fortener

Bradley C. Shoup

**PROPOSAL 2 RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee is directly responsible for the appointment, compensation, retention, and oversight of the independent registered public accounting firm retained to audit the Company's consolidated financial statements. To execute this responsibility, the Committee engages in an evaluation of the independent auditor's qualifications, performance, and independence and periodically considers whether the independent registered public accounting firm should be rotated and the advisability and potential impact of selecting a different independent registered public accounting firm.

The Audit Committee has reappointed KPMG LLP to serve as our independent registered public accounting firm for 2015. KPMG was first appointed to serve as our independent registered public accounting firm on October 24, 2012.

The Audit Committee and the Board of Directors believe that the continued retention of KPMG as our independent registered public accounting firm is in the best interest of the Company and our shareholders, and we are asking our shareholders to ratify the selection of KPMG as our independent registered public accounting firm for 2015.

Representatives of KPMG are expected to be present at the Annual Meeting and will have the opportunity to make a statement, if they so desire, and respond to appropriate questions from shareholders.

**THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF KPMG AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2015.**

If Proposal 2 is not approved, the Audit Committee will reconsider the appointment of KPMG as our independent registered public accounting firm for 2015.

**Disclosure of Fees Charged by the Independent Registered Public Accounting Firm**

The following table summarizes the fees billed by KPMG for services rendered to the Company and its subsidiaries during 2013 and 2014.



|                               | <b>Year Ended<br/>12/31/2014</b> | <b>Year Ended<br/>12/31/2013</b> |
|-------------------------------|----------------------------------|----------------------------------|
| Audit Fees <sup>(1)</sup>     | \$ 122,700                       | \$ 118,200                       |
| Audit-Related Fees            |                                  |                                  |
| Tax Fees                      | \$ 74,700                        | \$ 52,350                        |
| All Other Fees <sup>(2)</sup> | \$ 3,000                         | 3,000                            |
| <b>Total Fees</b>             | <b>\$ 200,400</b>                | <b>\$ 173,550</b>                |

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- (1) Audit fees include professional services rendered for the audit of annual financial statements, reviews of quarterly financial statements, issuance of consents, and assistance with review of other documents filed with the SEC.
- (2) All Other Fees included services related to the review of a consolidation analysis in 2013 and a consent related to a registration statement on Form S-8 filed by the Company with the SEC in 2014.

**Preapproval by Audit Committee**

The Audit Committee has adopted policies and procedures which set forth the manner in which the committee will review and approve all audit and non-audit services to be provided by the independent registered public accounting firm (the Services ) to ensure that the provision of the Services does not impair the firm's independence. The pre-approval policies and procedures are as follows:

The Audit Committee has established a pre-approval fee cap of \$25,000, under which any Services in excess of the \$25,000 fee cap must be submitted to the Audit Committee for review and pre-approval, and any Services less than the \$25,000 fee cap must be approved by the Chief Financial Officer and then reported to the Audit Committee at their next regularly scheduled meeting.

Pre-approval actions taken during Audit Committee meetings are recorded in the minutes of the meetings.

**Audit Committee Report**

The Audit Committee is comprised of three independent directors operating under a written charter adopted by the Board. Annually, the Audit Committee engages the Company's independent registered public accounting firm. KPMG served as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2014.

Management is responsible for preparation of the Company's financial statements and for designing and maintaining the Company's systems of internal controls and financial reporting processes. The Company's independent registered public accounting firm is responsible for performing an audit of the Company's consolidated financial statements in accordance with standards of the Public Company Accounting Oversight Board ( PCAOB ) and issuing reports on the Company's financial statements and the effectiveness of the Company's internal controls over financial reporting. The Audit Committee's responsibility is to provide independent, objective oversight of these processes.

Pursuant to this responsibility, the Audit Committee met and held discussions with management and KPMG regarding the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2014. The Audit Committee reviewed the audit plan and scope with KPMG and discussed with KPMG the matters required by the Public Company Accounting Oversight Board ( PCAOB ) Auditing Standard 16 *Communications with the Audit Committee*. The Audit Committee also met with KPMG without management present to discuss the results of their audit work, their evaluation of the Company's system of internal controls and the quality of the Company's financial reporting.

The Committee also discussed with KPMG its independence from management and the Company, and received its written disclosures and the letter from KPMG required by applicable requirements of the PCAOB regarding the independent accountant's communications with the audit committee concerning independence.

Management has represented to the Audit Committee that the Company's consolidated financial statements for the year ended December 31, 2014, were prepared in accordance with United States generally accepted accounting principles, and the Audit Committee reviewed and discussed the audited consolidated financial statements with management and KPMG. Based on the Audit Committee's discussions with management and KPMG and review of KPMG's report to the Audit Committee, the Audit Committee recommended to the Board of Directors (and the Board has approved) that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC.

Submitted by the Audit Committee of the Board of Directors:

Randolph J. Fortener, Chairman

Bradley C. Shoup

Frances A. Skinner

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**PROPOSAL 3 ADVISORY VOTE ON THE COMPENSATION OF THE COMPANY S NAMED EXECUTIVE OFFICERS**

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010, requires that we provide our shareholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our executive officers identified in the Summary Compensation Table of this Proxy Statement (the named executive officers ) as disclosed in this Proxy Statement in accordance with the SEC s rules.

As described in detail in the section entitled, EXECUTIVE OFFICERS AND COMPENSATION INFORMATION, we believe that executive compensation should be linked with the Company s performance and significantly aligned with the interests of the Company s shareholders. In addition, our executive compensation program is designed to allow us to retain, and recognize the contributions of, employees who play a significant role in our current and future success. We urge you to read the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosure for a detailed description of the fiscal year 2014 compensation of our named executive officers.

The vote on this resolution is not intended to address any specific element of compensation; rather, the advisory vote relates to the overall compensation of our named executive officers. This vote is advisory and therefore not binding on the Company. However, the Board and the Compensation Committee will review the voting results and will take into account the outcome of the vote when determining future compensation for the Company s named executive officers.

Accordingly, we ask our shareholders to vote on the following resolution:

RESOLVED, that the Company s shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company s Proxy Statement for the 2015 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosure.

**THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SEC.**

**ADDITIONAL INFORMATION**

**SHAREHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

Given the Company s relatively small size, the relatively small number of record shareholders, and the Board s consistent practice of being open to receiving direct communications from shareholders, the Board believes that it is not necessary to implement, and we do not have, a formal process for shareholders to send communications to the Board. Our practice is to forward any communication addressed to the full Board to the Chairman; to a group of directors, to a member of the group; or to an individual director, to that person.

**SHAREHOLDER PROPOSALS FOR 2016 ANNUAL MEETING**

Shareholders are entitled to submit proposals on matters appropriate for shareholder action consistent with SEC rules and our Code of Regulations. Should a shareholder wish to have a proposal appear in the Proxy Statement for next year s annual meeting, under applicable SEC rules, the proposal must be received by the Company s Secretary on or

before November 11, 2015, and must otherwise comply with the requirements of Rule 14a-8 of the Exchange Act. If a shareholder intends to present a proposal at next year's annual meeting but does not intend to seek the inclusion of such proposal in our Proxy Statement, such proposal must be received by the Company prior to January 25, 2016, or management proxies will be entitled to use discretionary voting authority should such proposal be raised without any discussion of the matter in the Proxy Statement. The Company's address is 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215.

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**SHAREHOLDERS SHARING THE SAME ADDRESS**

The SEC has implemented rules regarding the delivery of proxy materials (i.e., annual reports, proxy statements, proxy statements combined with a prospectus or any information statements provided to shareholders) to households. This method of delivery, often referred to as householding, would generally permit the Company to send a single annual report and a single proxy statement to any household at which two or more different shareholders reside if the Company believes such shareholders are members of the same family, unless the shareholder(s) have opted out of the householding process. Each shareholder would continue to receive a separate notice of any meeting of shareholders and proxy card. The householding procedure reduces the volume of duplicate information you receive and reduces expenses. The Company has instituted householding. If (i) you wish to receive separate annual reports or proxy statements, either this year or in the future, or (ii) members of your household receive multiple copies of the annual report and proxy statement and you wish to request householding, you may contact the Company's transfer agent, Continental Stock Transfer & Trust Company at 17 Battery Place, New York, New York 10004, or by phone at (212) 509-4000, or write to Mr. James Laird at 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215, or by calling (614) 255-3333.

In addition, many brokerage firms and other holders of record have instituted householding. If your family has one or more street name accounts under which our shares are beneficially owned, you may have received householding information from your broker, financial institution or other nominee in the past. Please contact the holder of record directly if you have questions, require additional copies of this Proxy Statement or Annual Report on Form 10-K or wish to revoke your decision to household and thereby receive multiple copies. You should also contact the holder of record if you wish to institute householding. These options are available to you at any time.

**OTHER BUSINESS**

The Board knows of no other business to be acted upon at the Annual Meeting. However, if any other business properly comes before the Annual Meeting, it is the intention of the persons named in the enclosed Proxy to vote on such matters in accordance with their best judgment.

The prompt completion, execution, and delivery of your proxy card or your submission of voting instructions electronically over the Internet or by telephone will be appreciated. Whether or not you expect to attend the Annual Meeting, please complete and sign the Proxy and return it in the enclosed envelope, or vote your proxy electronically via the Internet or telephonically.

By Order of the Board of Directors

James F. Laird

Secretary

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**United States**  
**Securities and Exchange Commission**  
**Washington, D.C. 20549**

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2014**  
**Commission file number 000-24498**

**DIAMOND HILL INVESTMENT GROUP, INC.**  
**(Exact name of registrant as specified in its charter)**

**Ohio**

**65-0190407**

(State of  
incorporation)

(I.R.S. Employer  
Identification No.)

325 John H. McConnell Blvd., Suite 200,  
Columbus, Ohio 43215

43215

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (614) 255-3333

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class<br>Common shares, no par value               | Name of each exchange on which registered<br>The NASDAQ Stock Market LLC |
|--|--|
| Securities registered pursuant to Section 12(g) of the Act: None |  |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer



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Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Aggregate market value of the registrant's common shares (the only common equity of the registrant) held by non-affiliates of the registrant, based on the closing price of \$127.72 on June 30, 2014 on the NASDAQ Global Select Market was \$318,644,669. Calculation of holdings by non-affiliates is based upon the assumption, for these purposes only, that the registrant's executive officers and directors and persons holding five percent or more of the registrant's common shares are affiliates.

The number of shares outstanding of the issuer's common stock, as of February 26, 2015, is 3,305,561 shares.

Documents incorporated by Reference

Portions of the registrant's definitive proxy statement for the 2015 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, are incorporated by reference into Part III of this report.

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Diamond Hill Investment Group, Inc.

Form 10-K

For the Fiscal Year Ended December 31, 2014

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Throughout this Annual Report on Form 10-K, Diamond Hill Investment Group, Inc. (the Company, we, us and our) may make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, relating to such matters as anticipated operating results, prospects and levels of assets under management, technological developments, economic trends (including interest rates and market volatility), expected transactions and similar matters. The words believe, expect, anticipate, estimate, should, hope, seek, plan, intend and similar expressions identify forward-looking statements that span as of the date thereof. While we believe that the assumptions underlying our forward-looking statements are reasonable, investors are cautioned that any of the assumptions could prove to be inaccurate and, accordingly, our actual results and experiences could differ materially from the anticipated results or other expectations expressed in our forward-looking statements. Factors that could cause such actual results or experiences to differ from results discussed in the forward-looking statements include, but are not limited to: the adverse effect from a decline in the securities markets; a decline in the performance of our products; changes in interest rates; changes in national and local economic and political conditions, including the effects of implementation of the Budget Control Act of 2011, the American Taxpayer Relief Act of 2012, the Jumpstart Our Business Startups Act of 2012 and the continuing economic uncertainty in various parts of the world; changes in government policy and regulation, including monetary policy; changes in our ability to attract or retain key employees; unforeseen costs and other effects related to legal proceedings or investigations of governmental and self-regulatory organizations; and other risks identified from time-to-time in other public documents on file with the U. S. Securities and Exchange Commission ( SEC ), including those discussed below in Item 1A. Throughout this Annual Report on Form 10-K, when we use the terms the Company, management, we, us, and our, we mean Diamond Hill Investment Group, Inc. and its subsidiaries.

**Overview**

The Company, an Ohio corporation organized in April 1990, derives its consolidated revenue and net income from investment advisory and fund administration services provided by its subsidiaries Diamond Hill Capital Management, Inc. ( DHCM ), Beacon Hill Fund Services, Inc. ( BHFS ), and BHIL Distributors, Inc. ( BHIL ). BHFS and BHIL collectively operate as Beacon Hill . DHCM is a registered investment adviser under the Investment Advisers Act of 1940. DHCM sponsors, distributes, and provides investment advisory and related services to U.S. and foreign clients through Diamond Hill Funds (the Funds ), institutional accounts, and private investment funds (generally known as hedge funds ). Beacon Hill provides fund administration and statutory underwriting services to U.S. and foreign clients, including the Funds.

The Company's primary objective is to fulfill our fiduciary duty to clients. Our secondary objective is to grow the intrinsic value of the Company in order to achieve an adequate long-term return for shareholders.

**Investment Advisory Activities*****Clients***

The Company provides investment advisory services to a broad range of clients, including corporations, mutual funds, retirement plans, public pension funds, endowments, foundations, financial institutions and high net worth individuals.

We strive to expand our client base by attracting new clients and earning additional business from existing clients.

***Investment Philosophy***

We believe that a company's intrinsic value is independent of its stock price. We also believe competitive long-term returns can be achieved by buying (shorting) companies when the current market price is at a discount (premium) to our estimate of intrinsic value, based upon a discounted cash flow methodology.

The following are the guiding principles for our philosophy:

**Treat every investment as a partial ownership interest in that company.**

Investing is most intelligent when it is viewed through the lens of an owner.

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### **Always invest with a margin of safety.**

Our discipline is to purchase (short) securities at a sufficient discount (premium) to our estimate of intrinsic value. We estimate the intrinsic value of the business independent of the current stock market price then compare our estimate to the price to determine if an opportunity exists. When we successfully identify securities trading below (above) our estimate of intrinsic value, it increases the potential reward and serves as the most effective risk control.

### **Possess a long-term investment temperament.**

In the short term, emotion as much as economic fundamentals drives market prices. Over time, the economic performance of the business and the price paid, versus the market, will determine investment return.

### **Recognize that market price and intrinsic value tend to converge over a reasonable period of time.**

Investment opportunity lies in the ability to buy (or short), when the current market price does not reflect a company's intrinsic value, and to sell (or cover) when price and value converge.

## ***Investment Process***

DHCM's investment process begins with fundamental research focusing on estimating a company's intrinsic value independent of its current stock price. Bottom-up analysis, which takes into consideration earnings, revenue growth, operating margins and other economic factors, is of primary importance in estimating the intrinsic value of an individual company. A five-year discounted cash flow analysis is the primary methodology to determine whether there is a discrepancy between the current market price and DHCM's estimate of intrinsic value. In order to forecast the amount and timing of cash flows, the research analysts concentrate on the fundamental economic drivers of the business, including competitive positioning, quality of management, and balance sheet strength. Research analysts also evaluate each company within the context of sector and industry secular trends. Key factors in analyzing sectors and industries include relative pricing power, ability to earn excess returns, long-term capital flow, and other fundamental factors. DHCM also applies an intrinsic value philosophy to the analysis of fixed income securities.

Only securities selling at a discount (premium) to intrinsic value will be purchased (sold short). A portfolio manager assigns the highest weights to the highest conviction names. A strategy will often not have any exposure to certain industries in which we are unable to find attractive opportunities. A stock will be sold (or covered) if its price reaches DHCM's estimate of intrinsic value, if fundamentals deteriorate, if a more attractive opportunity is identified, or if the holding reaches the stated limit as a percent of the portfolio.

DHCM believes that many investors' short-term focus hinders their long-term results, which creates market inefficiencies and therefore opportunities. In addition, not all investors are valuation sensitive. We believe that we can exploit these market anomalies/inefficiencies by possessing a long-term investment temperament and practicing a consistent and repeatable business appraisal approach to investing. Furthermore, DHCM believes that investing in securities whose market prices are significantly below DHCM's estimate of intrinsic value (or selling short securities whose market prices are above DHCM's estimate of intrinsic value) is a reliable method to achieve above average relative returns as well as mitigate risk.

## ***Investment Advisory Fees***

The Company's principal source of revenue is investment advisory fee income earned from managing client accounts under investment advisory and sub-advisory agreements. The fees earned depend on the type of investment strategy, account size and servicing requirements. Revenues depend on the total value and composition of assets under management ( AUM ). Accordingly, net cash flows from clients, market fluctuations in client portfolios, and the composition of AUM impact our revenues and results of operations. We also have certain agreements which allow us to earn variable fees in the event that investment returns exceed targeted amounts during a measurement period.

### ***Investment Strategies***

The Company offers several traditional and alternative investment strategies, which are all based on the same intrinsic value philosophy. As of December 31, 2014, we offered the following representative investment strategies to our clients:

1. *Small Cap* - Pursues long-term capital appreciation by investment in a portfolio of 50-80 small-capitalization U.S. equity securities.
2. *Small-Mid Cap* - Pursues long-term capital appreciation by investing in a portfolio of 50-70 small- and mid-capitalization U.S. equity securities.
3. *Mid Cap* - Pursues long-term capital appreciation by investing in a portfolio of 40-60 mid-capitalization U.S. equity securities

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4. *Large Cap* - Pursues long-term capital appreciation by investing in a portfolio of 40-60 large-capitalization U.S. equity securities.
5. *Select* - Pursues long-term capital appreciation by investing in a portfolio of 30-40 U.S. companies across a broad range of market capitalizations.
6. *Long-Short* - Pursues long-term capital appreciation by investing both long and selling short U.S. companies across a broad range of market capitalizations.
7. *Research Opportunities* - Pursues long-term capital appreciation by investing both long and selling short U.S. companies across a broad range of market capitalizations, as well as by investing up to 20% in international equities and up to 20% in fixed income investments.
8. *Financial Long-Short* - Pursues long-term capital appreciation by investing both long and selling short U.S. financial services companies across a broad range of market capitalizations.
9. *Strategic Income* - Pursues high current income, preservation of capital, and total return by investing in corporate bonds across the credit spectrum.

## ***Investment Results***

The Company believes that one of the most important characteristics exhibited by the best investment firms is excellent investment returns for their clients over a long period of time. We are pleased that, during our history as an investment advisory firm, we have delivered what we believe are strong long-term investment returns for our clients. Investment returns have been a key driver in the long-term success we have achieved in growing assets under management ( AUM ). Driven by an expanding economy, growing corporate profits, and persistently low interest rates, the broad U.S. equity market posted its sixth consecutive annual gain in 2014. Our investment strategies posted positive absolute returns in 2014; however, on a relative basis, most strategies trailed their respective benchmark returns.

2014 was a difficult year for active managers in large part due to lower volatility and lower dispersion. Volatility provides opportunities for active managers to identify mispricings in the market and take advantage of those mispricings. When volatility is low, there are fewer opportunities. Similarly, when dispersion is low, the spread between winners and losers is narrow, making it more difficult to stand out from the crowd. More importantly, as of December 31, 2014, the since inception returns for nearly all of our strategies with at least five years of results exceeded their respective benchmark returns. The exception was the Diamond Hill Research Opportunities Fund, which completed its first five-year period of existence at March 31, 2014. While pleased with the absolute return of the Research Opportunities Fund, the relative return since inception is disappointing. However, we continue to believe the Fund's disciplined approach to capital allocation will deliver satisfactory absolute and relative returns over most rolling five-year periods and over full market cycles. The following is a summary of the investment returns for each of our representative strategies with at least five years of results as of December 31, 2014, relative to its respective passive benchmark.





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| As of December 31, 2014                         |                   |               |               |               |              |                 |
|---|-------------------|---------------|---------------|---------------|--------------|-----------------|
|   | Inception         | 1 Year        | 3 Year        | 5 Year        | 10 Year      | Since Inception |
| <b>Diamond Hill Small Cap Fund</b>              | <b>12/29/2000</b> | <b>4.86%</b>  | <b>18.46%</b> | <b>13.81%</b> | <b>8.00%</b> | <b>11.89%</b>   |
| Russell 2000                                    |                   | 4.89%         | 19.21%        | 15.55%        | 7.77%        | 8.16%           |
| <b>Diamond Hill Small-Mid Cap Fund</b>          | <b>12/30/2005</b> | <b>7.36%</b>  | <b>20.74%</b> | <b>15.87%</b> | <b>N/A</b>   | <b>9.56%</b>    |
| Russell 2500                                    |                   | 7.07%         | 19.97%        | 16.36%        | N/A          | 8.78%           |
| <b>Diamond Hill Large Cap Fund</b>              | <b>6/29/2001</b>  | <b>10.74%</b> | <b>19.43%</b> | <b>13.91%</b> | <b>8.99%</b> | <b>8.52%</b>    |
| Russell 1000                                    |                   | 13.24%        | 20.62%        | 15.64%        | 7.96%        | 6.35%           |
| <b>Diamond Hill Select Fund</b>                 | <b>12/30/2005</b> | <b>11.57%</b> | <b>21.56%</b> | <b>14.32%</b> | <b>N/A</b>   | <b>8.71%</b>    |
| Russell 3000                                    |                   | 12.56%        | 20.51%        | 15.63%        | N/A          | 8.15%           |
| <b>Diamond Hill Long-Short Fund</b>             | <b>6/30/2000</b>  | <b>7.55%</b>  | <b>12.95%</b> | <b>8.29%</b>  | <b>7.19%</b> | <b>7.35%</b>    |
| 60% Russell 1000 / 40% BofA ML US 0-3           |                   |               |               |               |              |                 |
| Month T-Bill                                    |                   | 7.86%         | 12.08%        | 9.39%         | 5.61%        | 3.85%           |
| <b>Diamond Hill Research Opportunities Fund</b> | <b>3/31/2009</b>  | <b>7.21%</b>  | <b>16.83%</b> | <b>12.62%</b> | <b>N/A</b>   | <b>17.73%</b>   |
| Russell 3000                                    |                   | 12.56%        | 20.51%        | 15.63%        | N/A          | 20.87%          |
| <b>Diamond Hill Financial Long-Short Fund</b>   | <b>8/1/1997</b>   | <b>8.42%</b>  | <b>23.64%</b> | <b>13.98%</b> | <b>2.62%</b> | <b>7.68%</b>    |
| Russell 3000 Financials                         |                   | 14.06%        | 24.75%        | 14.00%        | 2.10%        | 4.99%           |
| <b>Diamond Hill Strategic Income Fund</b>       | <b>9/30/2002</b>  | <b>2.38%</b>  | <b>5.80%</b>  | <b>7.29%</b>  | <b>5.78%</b> | <b>7.33%</b>    |
| BofA ML US Corporate & High Yield               |                   | 6.43%         | 5.95%         | 7.07%         | 5.96%        | 6.73%           |

- Fund returns are Class I shares net of fees

- Index returns do not reflect any fees

**Assets Under Management**

The following tables show AUM by product and investment objective as well as net client cash flows for the past five years ended December 31, 2014:

**Assets Under Management by Product**

As of December 31,

| (in millions)     | 2014     | 2013     | 2012     | 2011     | 2010     |
|-------------------|----------|----------|----------|----------|----------|
| Proprietary funds | \$ 9,863 | \$ 7,600 | \$ 5,251 | \$ 4,405 | \$ 4,409 |

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|                        |           |           |          |          |          |
|------------------------|-----------|-----------|----------|----------|----------|
| Sub-advised funds      | 665       | 444       | 947      | 972      | 930      |
| Institutional accounts | 5,128     | 4,142     | 3,231    | 3,294    | 3,284    |
| Total AUM              | \$ 15,656 | \$ 12,186 | \$ 9,429 | \$ 8,671 | \$ 8,623 |

**Assets Under Management  
by Investment Objective**

As of December 31,

| (in millions)    | 2014      | 2013      | 2012     | 2011     | 2010     |
|------------------|-----------|-----------|----------|----------|----------|
| Small Cap        | \$ 1,575  | \$ 1,402  | \$ 939   | \$ 932   | \$ 948   |
| Small-Mid Cap    | 1,295     | 780       | 364      | 277      | 196      |
| Large Cap        | 7,926     | 6,254     | 5,211    | 4,885    | 4,631    |
| Select (All Cap) | 432       | 327       | 258      | 321      | 422      |
| Long-Short       | 4,179     | 3,213     | 2,455    | 2,082    | 2,251    |
| Strategic Income | 249       | 210       | 202      | 174      | 175      |
| Total AUM        | \$ 15,656 | \$ 12,186 | \$ 9,429 | \$ 8,671 | \$ 8,623 |

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| (in millions)                      | Change in Assets Under Management<br>For the Year Ended December 31, |           |          |          |          |
|------------------------------------|--|-----------|----------|----------|----------|
|                                    | 2014   | 2013      | 2012     | 2011     | 2010     |
| AUM at beginning of the year       | \$ 12,186  | \$ 9,429  | \$ 8,671 | \$ 8,623 | \$ 6,283 |
| Net cash inflows (outflows)        |  |           |          |          |          |
| proprietary funds                  | 1,618  | 713       | 429      | 56       | 452      |
| sub-advised funds                  | 166  | (758)     | (149)    | 21       | 714      |
| institutional accounts             | 478  | (263)     | (499)    | (74)     | 532      |
|                                    | 2,262  | (308)     | (219)    | 3        | 1,698    |
| Net market appreciation and income | 1,208  | 3,065     | 977      | 45       | 642      |
| Increase during the year           | 3,470  | 2,757     | 758      | 48       | 2,340    |
| AUM at end of the year             | \$ 15,656  | \$ 12,186 | \$ 9,429 | \$ 8,671 | \$ 8,623 |

**Capacity**

The Company's primary goal is to fulfill our fiduciary duty to clients. We understand that our ability to retain and grow assets as a firm has been, and will be, driven primarily by delivering attractive long-term investment results to our clients. Once we determine that the size of any of our strategies hinders our ability to add value over a passive alternative, we have closed, and will continue to close, those strategies to new clients, which will impact our ability to grow AUM. We have prioritized, and will continue to prioritize, investment results over asset accumulation. Currently, all of our investment strategies are open to new investors. We estimate our AUM capacity to be approximately \$25-\$35 billion, with AUM of \$15.7 billion as of December 31, 2014.

**Distribution Channels**

The Company's investment advisory services are distributed through multiple channels. Our institutional sales efforts include building relationships with institutional consultants and also establishing direct relationships with institutional clients. Our sales efforts for the Funds include wholesaling to third-party financial intermediaries, including independent registered investment advisers, brokers, financial planners, and wealth advisers, who utilize the Funds in investment programs they construct for their clients.

**AUM by Channel**

Below is a summary of our AUM by distribution channel for the past five years ended December 31, 2014:

| (in millions)                  | Assets by Distribution Channel<br>As of December 31, |          |          |          |          |
|--------------------------------|--|----------|----------|----------|----------|
|                                | 2014   | 2013     | 2012     | 2011     | 2010     |
| Proprietary funds:             |  |          |          |          |          |
| Registered investment advisers | \$ 2,363   | \$ 1,678 | \$ 1,258 | \$ 1,049 | \$ 1,080 |

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|                                     |                  |                  |                 |                 |                 |
|-------------------------------------|------------------|------------------|-----------------|-----------------|-----------------|
| Independent broker/dealers          | 1,862            | 1,400            | 917             | 665             | 815             |
| Wirehouse broker/dealers            | 1,760            | 1,261            | 758             | 674             | 775             |
| Banks                               | 2,176            | 1,668            | 1,407           | 927             | 797             |
| Defined contribution                | 1,232            | 1,226            | 739             | 737             | 493             |
| Other                               | 470              | 367              | 172             | 353             | 449             |
| <b>Total proprietary funds</b>      | <b>9,863</b>     | <b>7,600</b>     | <b>5,251</b>    | <b>4,405</b>    | <b>4,409</b>    |
| Sub-advised funds                   | 665              | 444              | 947             | 972             | 930             |
| <b>Institutional accounts:</b>      |                  |                  |                 |                 |                 |
| Institutional consultant            | 2,681            | 1,965            | 1,857           | 1,836           | 1,602           |
| Financial intermediary              | 1,573            | 1,488            | 1,164           | 1,237           | 1,246           |
| Direct                              | 874              | 689              | 210             | 221             | 436             |
| <b>Total institutional accounts</b> | <b>5,128</b>     | <b>4,142</b>     | <b>3,231</b>    | <b>3,294</b>    | <b>3,284</b>    |
| <b>Total AUM</b>                    | <b>\$ 15,656</b> | <b>\$ 12,186</b> | <b>\$ 9,429</b> | <b>\$ 8,671</b> | <b>\$ 8,623</b> |

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### ***Growth Strategy***

The Company's growth strategy will remain focused on achieving excellent investment results in all our strategies and providing the highest level of client service. We will continue to focus on the development of distribution channels to enable us to offer our various investment strategies to a broad array of clients. We seek to continue to grow AUM through our proprietary funds and institutional accounts. We have a targeted strategic business plan to further penetrate our existing distribution channels. Our business development efforts are focused on expanding the institutional consultant channel and plan sponsor network on the separate account side, as well as our intermediary network on the fund side.

### **Fund Administration Activities**

#### ***Fund Administration Services***

The Company provides fund administration services to the Diamond Hill Funds and other third party mutual fund companies and investment advisers. Fund administration services are broadly defined as portfolio and regulatory compliance, treasury and financial oversight, statutory underwriting, oversight of back-office service providers such as the custodian, fund accountant, and transfer agent, and general business management and governance of the mutual fund complex. These services are offered on a stand-alone basis, as well as through a series or "umbrella" trust whereby individual investment advisers can establish a mutual fund under a fund complex sponsored by the Company.

#### ***Fund Administration Fees***

The Company earns revenue from performing various fund administration activities described above under individual client agreements. The fees earned depend on the type of service, fund size, and/or servicing requirements. Certain client agreements have a fixed fee arrangement while others have a fee derived as a percentage of assets under administration.

### **Competition**

Competition in the area of investment management and fund administration is intense, and our competitors include investment management firms, broker-dealers, banks and insurance companies, some of whom offer various investment alternatives. Many competitors are better known than the Company, offer a broader range of investment products and have more offices, employees and business development representatives. We compete primarily on the basis of philosophy, performance and client service.

### **Regulation**

The Company and our business are subject to various federal, state and foreign laws and regulations. As a matter of public policy, regulatory bodies are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of participants in those markets, including investment advisory clients and shareholders of investment funds. Under these laws and regulations, agencies that regulate investment advisers have broad administrative powers, including the power to limit, restrict or prohibit an investment adviser from carrying on its business in the event the adviser fails to comply with such laws and regulations. Possible sanctions that may be imposed include civil and criminal liability, the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of investment adviser, broker/dealer, and other registrations, censures and fines.

DHCM is registered with the SEC under the Investment Advisers Act of 1940 (the Advisers Act ) and operates in a highly regulated environment. The Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary duties, recordkeeping requirements, operational requirements and disclosure obligations. All Diamond Hill Funds are registered with the SEC under the Investment Company Act of 1940 and are required to make notice filings with all states where they are offered for sale. BHIL is registered with the SEC as a broker/dealer and is a member of the Financial Industry Regulatory Authority, Inc. ( FINRA ). Virtually all aspects of our investment advisory and fund administration business are subject to various federal and state laws and regulations.

To the extent that DHCM is a fiduciary under the Employee Retirement Income Security Act of 1974 ( ERISA ) with respect to benefit plan clients, it is subject to ERISA regulations. ERISA and applicable provisions of the Internal Revenue Code impose certain duties on persons who are fiduciaries, prohibit certain transactions involving ERISA plan clients, and provide monetary penalties for violations of these prohibitions. The U.S. Department of Labor, which administers ERISA, has been increasingly active in proposing and adopting regulations affecting the asset management industry. Failure to comply with these requirements could have a material adverse effect on our business.

The Company s trading activities for client accounts are regulated under the Securities Exchange Act of 1934 (the Exchange Act ), as well as as various FINRA rules, including laws governing trading on inside information, market manipulation and a

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broad number of trading requirements (e.g., volume limitations, reporting obligations) and market regulation policies in the United States.

The preceding descriptions of the regulatory and statutory provisions applicable to us are not complete and are qualified in their entirety by reference to their respective statutory or regulatory provisions.

## **Contractual Relationships with the Diamond Hill Funds**

The Company is very dependent on our contractual relationships with the Funds. In the event our advisory or administration agreements with the Funds are terminated, not renewed, or amended to reduce fees, we would be materially and adversely affected. We generated approximately 73%, 71% and 65% of our 2014, 2013 and 2012 revenues, respectively, from our advisory and administrative contracts with the Funds. We consider our relationship with the Funds and their board of trustees to be good, and have no reason to believe that these advisory or administration contracts will not be renewed in the future; however, there is no assurance that the Funds will choose to continue their relationships with the Company. Please see Item 1A for risk factors regarding this relationship.

## **Employees**

As of December 31, 2014, the Company and its subsidiaries employed 107 full-time equivalent employees. As of December 31, 2013, the comparable number was 98. We believe that our relationship with our employees is good and do not anticipate any material change in the number of employees.

## **SEC Filings**

The Company maintains an Internet website at [www.diamond-hill.com](http://www.diamond-hill.com). Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, XBRL instance documents, Current Reports on Form 8-K and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are made available free of charge, on or through our website, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The contents of our website are not incorporated into, or otherwise made a part of, this Annual Report on Form 10-K. Our filings with the Commission may be read and copied at the Commission's Public Reference Room at 100F Street, NE, Washington, DC 20549. These filings are also available on the Commission's web-site at <http://www.sec.gov> free of charge as soon as reasonably practicable after we have filed the above referenced reports.

## **ITEM 1A. Risk Factors**

The Company's future results of operations, financial condition, liquidity, and the market price of our common shares are subject to various risks, including those mentioned below and those that are discussed from time-to-time in our other periodic filings with the SEC. Investors should carefully consider these risks, along with the other information contained in this report, before making an investment decision regarding our common shares. There may be additional risks of which we are currently unaware, or which we currently consider immaterial. The occurrence of any of these risks could have a material adverse effect on our financial condition, results of operations, liquidity, and value of our common shares. Please see "Forward Looking Statements" within Item 1 of Part I of this Form 10-K.

Poor investment results of our products could affect our ability to attract new clients or reduce the amount of assets under management, potentially negatively impacting revenue and net income.



If we fail to deliver acceptable investment results for our clients, both in the short and long term, we will likely experience diminished investor interest and potentially a diminished level of AUM.

Adverse opinions of the funds we administer or advise published by third parties, including rating agencies and industry analysts, could decrease our AUM and our revenues.

Investment funds are assessed and rated by independent third parties, including rating agencies, industry analysts and publications. Investors can be influenced by such ratings. If any of the funds we administer or advise receives an adverse report, it could negatively influence the amount of money invested into the fund and increase withdrawals from the fund reducing our AUM and our revenue.

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The Company's success depends on our key personnel, and our financial performance could be negatively affected by the loss of their services.

Our success depends on highly skilled personnel, including portfolio managers, research analysts, and management, many of whom have specialized expertise and extensive experience in the investment management industry. Financial services professionals are in high demand, and we face significant competition for qualified employees. With the exception of our Chief Executive Officer, key employees do not have employment contracts and generally can terminate their employment at any time. The Company cannot assure that we will be able to retain or replace key personnel. In order to retain or replace our key personnel, we may be required to increase compensation, which would decrease net income. The loss of key personnel could damage our reputation and make it more difficult to retain and attract new employees and clients. A loss of client assets resulting from the departure of key personnel may materially decrease our revenues and net income.

The Company's AUM, which impacts revenue, is subject to significant fluctuations.

A large majority of our revenue is calculated as a percentage of AUM or is related to the general performance of the equity securities market. A decline in securities prices (such as that experienced during the last half of 2008 and first quarter of 2009) or in the sale of investment products, or an increase in fund redemptions, generally would reduce fee income. Financial market declines would generally negatively impact the level of our AUM and consequently our revenue and net income. A recession or other economic or political events, both in the United States as well as globally, could also adversely impact our revenue, if such events led to a decreased demand for products, a higher redemption rate, or a decline in securities prices.

The investment results and/or the growth in our AUM may be constrained if appropriate investment opportunities are not available or if we close certain of our portfolios.

The Company's ability to deliver strong investment results depends in large part on our ability to identify appropriate investment opportunities in which to invest client assets. If we are unable to identify sufficient investment opportunities for existing and new client assets on a timely basis, our investment results could be adversely affected. The risk that appropriate investment opportunities may be unavailable is influenced by a number of factors, including general market conditions, and is likely to increase if our AUM increases rapidly. In addition, if we determine that sufficient investment opportunities are not available for a portfolio strategy, or we believe that in order to continue to produce attractive returns from a portfolio, we will consider closing the portfolio to new investors. If we misjudge the point at which it would be optimal to close a portfolio, the investment results of the portfolio could be negatively impacted.

The Company is subject to substantial competition in all aspects of our business.

Our investment products compete against a number of investment products and services from:

asset management firms;

mutual fund companies;

commercial banks and thrift institutions;

insurance companies;

exchange traded funds;

hedge funds; and

brokerage and investment banking firms.

Many of these financial institutions have substantially greater resources than the Company and may operate in more markets or offer a broader range of products, including passively managed or index products. Some of these institutions operate in a different regulatory environment, which may give them certain competitive advantages in the investment products and portfolio structures that they offer. We compete with other providers of investment services primarily based upon our philosophy, performance and client service. Some institutions have a broad array of products and distribution channels that make it more difficult for us to compete with them. If current or potential customers decide to use one of our competitors, we could face a significant decline in market share, AUM, revenues, and net income. If we are required to lower our fees in order to remain competitive, our net income could be significantly reduced because some of our expenses are fixed, especially over shorter periods of time, and other expenses may not decrease in proportion to the decrease in revenues.

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The loss of access to or increased fees required by third party distribution sources to market our portfolios and access our client base could adversely affect our results of operations.

The Company's ability to attract additional assets to manage is dependent on our access to third-party intermediaries. We gain access to mutual fund investors and some retail and institutional clients through third parties, including mutual fund platforms and financial intermediaries. We compensate intermediaries for access to investors and for various services provided. These distribution sources and client bases may not continue to be accessible to us for reasonable terms, or at all. Limiting or the total absence of such access could have an adverse effect on our results of operations. The recent economic downturn and consolidation in the broker-dealer industry may lead to reduced distribution access and increases in fees the Company is required to pay to intermediaries. If such increased fees should be required, refusal to pay them could restrict our access to those client bases while paying them could adversely affect our profitability.

A significant portion of the Company's revenues are based on contracts with the Funds that are subject to termination without cause and on short notice.

The Company is very dependent on our contractual relationships with the Funds. In the event our advisory or administration agreements with the Funds are terminated, not renewed, or amended to reduce fees, we would be materially and adversely affected. Generally, these agreements are terminable by either party upon 60 days written notice without penalty. The agreements are subject to annual approval by either (i) the board of trustees of the Funds or (ii) a vote of the majority of the outstanding voting securities of each Fund. The agreements automatically terminate in the event of their assignment by either the Company or the Fund. We generated approximately 73%, 71%, and 65% of our 2014, 2013 and 2012 revenues, respectively, from our advisory and administrative contracts with the Funds, including 30%, 15%, and 10% from the advisory contracts with the Diamond Hill Long-Short Fund, Large Cap Fund, and Small Cap Fund, respectively, during 2014. The loss of the Long-Short Fund, Large Cap Fund, or Small Cap Fund contracts would have a material adverse effect on the Company. We consider our relationship with the Funds and their board of trustees to be good, and we have no reason to believe that these advisory or administration contracts will not be renewed in the future; however, there is no assurance that the Funds will choose to continue their relationships with us.

Operational risks may disrupt our business, result in losses or limit our growth.

The Company is dependent on the capacity and reliability of the communications, information and technology systems supporting our operations, whether developed, owned and operated by the Company or by third parties. Operational risks such as trading or operational errors, interruption of our financial, accounting, trading, compliance and other data processing systems, the loss of data contained in the systems, or compromised systems due to cyber-attack, could result in a disruption of our business, liability to clients, regulatory intervention or reputational damage, and thus adversely affect our business.

The Company's business is subject to substantial governmental regulation.

Our business is subject to a variety of federal securities laws, including the Investment Advisers Act of 1940, the Investment Company Act of 1940, the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002, and the U.S. PATRIOT Act of 2001. In addition, we are subject to significant regulation and oversight by the SEC and FINRA. Changes in legal, regulatory, accounting, tax and compliance requirements could have a significant effect on our operations and results, including but not limited to increased expenses and reduced investor interest in certain funds and other investment products we offer. We continually monitors legislative, tax, regulatory, accounting, and compliance developments that could impact our business. We and our directors, officers and employees could be

subject to lawsuits or regulatory proceedings for violations of such laws and regulations, which could result in the payment of fines or penalties and cause reputational harm to the Company. Such harm could negatively affect our financial condition and results of operations, as well as divert management's attention from operations.

We continue to seek to understand, evaluate and, when possible, manage and control these and other business risks.

Trading in our common shares is limited, which may adversely affect the time and the price at which you can sell your shares of the Company.

Although our common shares are listed on the NASDAQ Global Select Market, the shares are held by a relatively small number of shareholders, and trading in our common shares is not active. The spread between the bid and the asked prices is often wide. As a result, you may not be able to sell your shares on short notice, and the sale of a large number of shares at one time could temporarily depress the market price. In addition, certain shareholders, including certain directors and officers of the Company, own a significant number of shares. The sale of a large number of shares by any such individual could temporarily depress the market price.

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**ITEM 1B. Unresolved Staff Comments**

None.

**ITEM 2. Properties**

The Company leases office space at two locations in Columbus, Ohio and one location in Berwyn, Pennsylvania.

The Company does not own any real estate or interests in real estate.

**ITEM 3. Legal Proceedings**

From time to time, the Company is party to ordinary routine litigation that is incidental to its business. There are currently no material legal proceedings.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

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The following performance graph compares the total shareholder return of an investment in our common shares to that of the Russell Microcap<sup>®</sup> Index, and to a peer group index of publicly traded asset management firms for the five-year period ending on December 31, 2014. The graph assumes that the value of the investment in our common shares and each index was \$100 on December 31, 2009. Total return includes reinvestment of all dividends. The Russell Microcap<sup>®</sup> Index makes up less than 3% of the U.S. equity market and is a market-value-weighted index of the smallest 1,000 securities in the small-cap Russell 2000<sup>®</sup> Index plus the next 1,000 smallest securities. Peer Group returns are weighted by the market capitalization of each firm at the beginning of the measurement period. The historical information set forth below is not necessarily indicative of future performance. We do not make or endorse any predictions as to future stock performance.

|  | 12/31/2009 | 12/31/2010 | 12/31/2011 | 12/31/2012 | 12/31/2013 | 12/31/2014 | Cumulative<br>5 Year Total<br>Return |
|--|------------|------------|------------|------------|------------|------------|--------------------------------------|
| Diamond Hill Investment Group,<br>Inc. | \$100      | \$133      | \$145      | \$149      | \$266      | \$319      | 219%                                 |
| Russell Microcap <sup>®</sup> Index    | \$100      | \$129      | \$117      | \$140      | \$204      | \$211      | 111%                                 |
| Peer Group*                            | \$100      | \$102      | \$75       | \$98       | \$151      | \$150      | 50%                                  |

\* The Peer Group is based upon all asset managers with market cap of less than \$5 billion excluding firms whose primary business is hedge fund or private equity, and firms with multiple lines of business. The following companies are included in the Peer Group: Alliance Bernstein Holding L.P.; Calamos Asset Management, Inc.; Cohen & Steers, Inc.; Eaton Vance Corp.; Federated Investors, Inc.; GAMCO Investors, Inc.; Hennessy Advisors, Inc.; Janus Capital Group, Inc.; Pzena Investment Management, Inc.; Teton Advisors, Inc.; U.S. Global Investors, Inc.; Virtus Investment Partners, Inc.; Waddell & Reed Financial, Inc.; Wisdomtree Investments, Inc.; and Westwood Holdings Group, Inc.

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The Company's common shares trade on the NASDAQ Global Select Market under the symbol DHIL. The following table sets forth the high and low sales prices during each quarter of 2014 and 2013:

| Quarter ended: | High Price | 2014 Low Price | Dividend Per Share | High Price | 2013 Low Price | Dividend Per Share |
|----------------|------------|----------------|--------------------|------------|----------------|--------------------|
| March 31       | \$ 130.57  | \$ 112.83      | \$                 | \$ 79.30   | \$ 67.34       | \$                 |
| June 30        | \$ 133.50  | \$ 115.86      | \$                 | \$ 85.59   | \$ 72.50       | \$                 |
| September 30   | \$ 133.62  | \$ 122.89      | \$                 | \$ 113.16  | \$ 86.21       | \$                 |
| December 31    | \$ 143.06  | \$ 114.57      | \$ 4.00            | \$ 124.25  | \$ 104.86      | \$ 3.00            |

Due to the relatively low volume of traded shares, bid/ask spreads can be fairly wide at times and therefore, quoted prices may not be indicative of the price a shareholder may receive in an actual transaction. During the years ended December 31, 2014 and 2013, approximately 1,553,212 and 2,663,334, respectively, of our common shares were traded. The dividends indicated above were special dividends. We have not paid regular quarterly dividends in the past, and have no present intention of paying regular dividends in the future. The approximate number of record holders of our common shares at December 31, 2014 was 264, although we believe that the number of beneficial owners of our common shares is substantially greater.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The Company did not purchase any of our common shares during the year ended December 31, 2014. The following table sets forth information regarding our repurchase program of our common shares during the fourth quarter of fiscal year 2014:

| Period                                     | Total Number of Shares Purchased as part of Publicly Announced Plans or Programs | Average Price Paid Per Share | Total Number of Shares Purchased as part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs(a) |
|--|--|------------------------------|--|---|
| October 1, 2014 through October 31, 2014   |  |                              |  | 318,433   |
| November 1, 2014 through November 30, 2014 |  |                              |  | 318,433   |
| December 1, 2014 through December 31, 2014 |  |                              |  | 318,433   |

- (a) The Company's current share repurchase program was announced on August 9, 2007. The board of directors authorized management to repurchase up to 350,000 of our common shares in the open market and in private transactions in accordance with applicable securities laws. Our repurchase program is not subject to an expiration date.

We sold no equity securities of the Company during 2014 that were not registered under the Securities Act of 1933.





**Table of Contents****ITEM 6. Selected Financial Data**

The following selected financial data should be read in conjunction with our Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Annual Report on Form 10-K.

| (in thousands, except per share data)      | For the Years Ended December 31, |           |           |           |           |
|--|----------------------------------|-----------|-----------|-----------|-----------|
|  | 2014                             | 2013      | 2012      | 2011      | 2010      |
| <b>Income Statement Data:</b>              |                                  |           |           |           |           |
| Total revenues                             | \$ 104,559                       | \$ 81,432 | \$ 66,657 | \$ 63,895 | \$ 56,795 |
| Compensation and related costs             | 43,892                           | 40,852    | 33,868    | 32,875    | 30,991    |
| Other expenses                             | 13,206                           | 9,898     | 8,361     | 7,959     | 7,331     |
| Total expenses                             | 57,098                           | 50,750    | 42,229    | 40,834    | 38,322    |
| Net operating income                       | 47,460                           | 30,682    | 24,428    | 23,061    | 18,473    |
| Operating profit margin                    | 45.4%                            | 37.7%     | 36.6%     | 36.1%     | 32.5%     |
| Net income                                 | 31,581                           | 22,155    | 16,931    | 14,353    | 12,402    |
| <b>Per Share Information:</b>              |                                  |           |           |           |           |
| Basic earnings                             | \$ 9.88                          | \$ 7.05   | \$ 5.44   | \$ 4.86   | \$ 4.48   |
| Diluted earnings                           | 9.67                             | 6.94      | 5.44      | 4.86      | 4.48      |
| Cash dividend declared                     | 4.00                             | 3.00      | 8.00      | 5.00      | 13.00     |
| <b>Weighted Average Shares Outstanding</b> |                                  |           |           |           |           |
| Basic                                      | 3,196                            | 3,142     | 3,111     | 2,952     | 2,767     |
| Diluted                                    | 3,266                            | 3,194     | 3,111     | 2,952     | 2,768     |
| <b>Balance Sheet Data (in thousands):</b>  |                                  |           |           |           |           |
| Total assets                               | \$ 107,709                       | \$ 75,353 | \$ 41,236 | \$ 37,720 | \$ 28,566 |
| Long-term debt                             |                                  |           |           |           |           |
| Shareholders equity                        | 74,319                           | 44,943    | 21,736    | 18,050    | 7,498     |
| Assets Under Management (in millions)      | \$ 15,656                        | \$ 12,186 | \$ 9,429  | \$ 8,671  | \$ 8,623  |
| Net Client Flows (in millions)             | 2,262                            | (308)     | (219)     | 3         | 1,698     |

**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

In this section, we discuss and analyze the consolidated results of operations for the past three fiscal years and other factors that may affect future financial performance. This discussion should be read in conjunction with our Consolidated Financial Statements, Notes to Consolidated Financial Statements, and Selected Financial Data contained in this Form 10-K.

**Business Environment**

Driven by an expanding economy, growing corporate profits, and persistently low interest rates, the broad U.S. equity market posted its sixth consecutive annual gain in 2014. The S&P 500 Index finished the year with a 13.7% total return (including dividends), and the Federal Reserve signaled its belief in the economy's ability to grow without

assistance by concluding its bond purchasing program known as Quantitative Easing, or QE, in October 2014. Although investors expect the Fed to raise interest rates sometime in 2015, its overall monetary policy remains accommodative, encouraging equity investors.

In the U.S., unemployment fell as a result of the best hiring stretch since the late 1990s. The U.S. consumer benefited from a steep decline in gasoline prices to the lowest levels in five years, adding more buying power beyond modest wage gains. The sharp decline in the price of oil over the past few months is likely to improve household budgets. Globally, central banks remained extraordinarily accommodative in an attempt to provide a backdrop for increased economic growth. Europe, which has been a clear economic laggard over the past few years, was still only showing modest signs of improvement. Meanwhile, China and India continued to grow at healthy mid-single digit rates, but many other emerging economies around the world are

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seeing decelerating growth rates. The U.S. dollar ended the year strong relative to other currencies as investors were confident that stronger economic growth in the U.S. will lead the Fed to raise rates in 2015 for the first time since before the financial crisis.

Despite the end of the Federal Reserve's Quantitative Easing, we continue to believe the Fed is likely to maintain a very accommodative overall monetary stance well into next year as the domestic economy is lacking signs of robust growth, while inflation expectations have again turned lower. The recent strength of the U.S. dollar is now playing a key role in these developments as its relative appreciation has created a new headwind for growth while also pushing down commodity prices. The modest deleveraging of the U.S. household sector over the past few years continues to be a positive story. These lower debt levels combined with very low interest rates have allowed consumer debt-service burdens to improve to very low levels by historical standards. This healthy debt service picture remains very much tied to historically low interest/mortgage rates, and any sharp, meaningful increase in those rates is likely to present an important headwind for growth.

Although the U.S. economy appears to be healing at a steady pace and set to maintain its 2% - 3% growth heading into 2015, we continue to expect positive but below average equity market returns over the next five years. Our conclusion is primarily based on above average price/earnings multiples applied to already very strong levels of corporate profit margins, which in combination, likely tempers prospective returns. This outlook also seems consistent with the current interest rate environment. We believe that we can achieve better than market returns over the next five years through active portfolio management and stock selection independent of benchmark weights.

A large majority of our revenue is calculated as a percentage of AUM and is therefore impacted by the overall business and economic environment described above. Financial market declines or deterioration in the economic environment would generally negatively impact the level of our AUM, and consequently our revenue and net income.

**Key Financial Performance Indicators**

There are a variety of key performance indicators the Company monitors in order to evaluate our business results. The following table presents the results of certain key performance indicators over the past three fiscal years:

|                               | For the Years Ended December 31, |           |          |
|-------------------------------|----------------------------------|-----------|----------|
|                               | 2014                             | 2013      | 2012     |
| Ending AUM (in millions)      | \$ 15,656                        | \$ 12,186 | \$ 9,429 |
| Average AUM (in millions)     | 13,847                           | 10,817    | 9,249    |
| Total Revenue (in thousands)  | 104,559                          | 81,432    | 66,657   |
| Total Expenses (in thousands) | 57,099                           | 50,750    | 42,229   |
| Average Advisory Fee Rate     | 0.65%                            | 0.65%     | 0.62%    |
| Operating Profit Margin       | 45.4%                            | 37.7%     | 36.6%    |

**Assets Under Management**

Our revenue is derived primarily from investment advisory and administration fees. Investment advisory and administration fees paid to the Company are generally based on the value of the investment portfolios we manage and fluctuate with changes in the total value of the AUM. Substantially all of our AUM (98.4%) is valued based on readily available market quotations. AUM in our fixed income strategies (1.6%) is valued using evaluated prices from an independent third-party provider. Fees are recognized in the period that the Company manages these assets.

Revenues are highly dependent on both the value and composition of AUM. The following is a summary of our AUM by product, investment objective, and a roll-forward of the change in AUM for the years ended December 31, 2014, 2013, and 2012:

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| (in millions)          | <b>Assets Under Management by Product</b> |                  |                 |
|------------------------|---|------------------|-----------------|
|                        | <b>As of December 31,</b>                 |                  |                 |
|                        | <b>2014</b>                               | <b>2013</b>      | <b>2012</b>     |
| Proprietary funds      | \$ 9,863                                  | \$ 7,600         | \$ 5,251        |
| Sub-advised funds      | 665                                       | 444              | 947             |
| Institutional accounts | 5,128                                     | 4,142            | 3,231           |
| <b>Total AUM</b>       | <b>\$ 15,656</b>                          | <b>\$ 12,186</b> | <b>\$ 9,429</b> |

| (in millions)    | <b>Assets Under Management</b> |                  |                 |
|------------------|--------------------------------|------------------|-----------------|
|                  | <b>by Investment Objective</b> |                  |                 |
|                  | <b>As of December 31,</b>      |                  |                 |
|                  | <b>2014</b>                    | <b>2013</b>      | <b>2012</b>     |
| Small Cap        | \$ 1,575                       | \$ 1,402         | \$ 939          |
| Small-Mid Cap    | 1,295                          | 780              | 364             |
| Large Cap        | 7,926                          | 6,254            | 5,211           |
| Select (All Cap) | 432                            | 327              | 258             |
| Long-Short       | 4,179                          | 3,213            | 2,455           |
| Strategic Income | 249                            | 210              | 202             |
| <b>Total AUM</b> | <b>\$ 15,656</b>               | <b>\$ 12,186</b> | <b>\$ 9,429</b> |

| (in millions)                      | <b>Change in Assets Under Management</b> |                  |                 |
|------------------------------------|--|------------------|-----------------|
|                                    | <b>For the Year Ended December 31,</b>   |                  |                 |
|                                    | <b>2014</b>                              | <b>2013</b>      | <b>2012</b>     |
| AUM at beginning of the year       | \$ 12,186                                | \$ 9,429         | \$ 8,671        |
| Net cash inflows (outflows)        |  |                  |                 |
| proprietary funds                  | 1,618                                    | 713              | 429             |
| sub-advised funds                  | 166                                      | (758)            | (149)           |
| institutional accounts             | 478                                      | (263)            | (499)           |
|                                    | 2,262                                    | (308)            | (219)           |
| Net market appreciation and income | 1,208                                    | 3,065            | 977             |
| <b>Increase during the year</b>    | <b>3,470</b>                             | <b>2,757</b>     | <b>758</b>      |
| <b>AUM at end of the year</b>      | <b>\$ 15,656</b>                         | <b>\$ 12,186</b> | <b>\$ 9,429</b> |

**Consolidated Results of Operations**

The following is a discussion of our consolidated results of operations.

| (in thousands, except per share data) | 2014 | 2013 | % Change | 2013 | 2012 | % Change |
|---------------------------------------|------|------|----------|------|------|----------|
|---------------------------------------|------|------|----------|------|------|----------|

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|   |           |           |     |           |           |     |
|---|-----------|-----------|-----|-----------|-----------|-----|
| Net operating income  | \$ 47,460 | \$ 30,682 | 55% | \$ 30,682 | \$ 24,428 | 26% |
| Net operating income after tax <sup>(a)</sup>                   | \$ 29,759 | \$ 19,077 | 56% | \$ 19,077 | \$ 15,857 | 20% |
| Net income  | \$ 31,581 | \$ 22,155 | 43% | \$ 22,155 | \$ 16,931 | 31% |
| Net operating income after tax per diluted share <sup>(a)</sup> | \$ 9.11   | \$ 5.97   | 53% | \$ 5.97   | \$ 5.10   | 17% |
| Net income per diluted share                                    | \$ 9.67   | \$ 6.94   | 39% | \$ 6.94   | \$ 5.44   | 28% |
| Operating profit margin   | 45.4%     | 37.7%     | NM  | 37.7%     | 36.6%     | NM  |

(a) Net operating income after tax is a non-GAAP performance measure. See Use of Supplemental Data as Non-GAAP Performance Measure section within this report.

**Table of Contents****Year Ended December 31, 2014 compared with Year Ended December 31, 2013**

The Company earned net income of \$31.6 million (\$9.67 per diluted share) for the year ended December 31, 2014, compared with net income of \$22.2 million (\$6.94 per diluted share) for the year ended December 31, 2013. Operating income increased by \$16.8 million from 2013 to 2014 primarily due to an increase in AUM, resulting in a \$23.1 million increase in revenue. The revenue increase was offset by an increase in operating expenses of \$6.3 million, primarily related to higher compensation due to staffing and merit increases and increases in incentive compensation. A positive return on our corporate investments further contributed to the overall increase in net income. Investment income of \$2.9 million in 2014 was due to net portfolio appreciation. The income tax provision increased \$5.3 million from the year ended December 31, 2013 to December 31, 2014 primarily due to an overall increase in book income. Operating profit margin increased to 45.4% for 2014 from 37.7% for 2013. We expect that our operating margin will fluctuate, sometimes substantially, from year to year based on various factors including revenues; investment results; employee performance; staffing levels; development of investment strategies, products, or channels; and industry comparisons.

**Year Ended December 31, 2013 compared with Year Ended December 31, 2012**

The Company earned net income of \$22.2 million (\$6.94 per diluted share) for the year ended December 31, 2013, compared with net income of \$16.9 million (\$5.44 per diluted share) for the year ended December 31, 2012. Operating income increased by \$6.3 million from 2012 to 2013 primarily due to an increase in AUM, resulting in a \$14.8 million increase in revenue. The revenue increase was offset by an increase in operating expenses of \$8.5 million, primarily related to higher compensation due to staffing and merit increases and increases in incentive compensation and restricted stock expenses. A positive return on our corporate investments further contributed to the overall increase in net income offset by a change in the effective tax rate from 35.1% in 2012 to 37.8% in 2013. Investment income increased \$3.3 million from the year ended December 31, 2012 to December 31, 2013 due to net portfolio appreciation. Income tax provision increased \$4.3 million from the year ended December 31, 2012 to December 31, 2013 primarily due to an overall increase in book income and an increase in the effective tax rate as a result of interest expense and additional state and city income tax resulting from the 2013 settled IRS exam. Operating profit margin increased to 37.7% for 2013 from 36.6% for 2012. We expect that our operating margin will fluctuate from year to year based on various factors including revenues; investment results; employee performance; staffing levels; development of investment strategies, products, or channels; and industry comparisons.

**Revenue**

| (in thousands)                     | 2014      | 2013      | % Change | 2013      | 2012      | % Change |
|------------------------------------|-----------|-----------|----------|-----------|-----------|----------|
| Investment advisory                | \$ 89,901 | \$ 69,967 | 28%      | \$ 69,967 | \$ 57,783 | 21%      |
| Mutual fund administration,<br>net | 14,658    | 11,465    | 28%      | 11,465    | 8,874     | 29%      |
| Total                              | 104,559   | 81,432    | 28%      | 81,432    | 66,657    | 22%      |

**Revenue for the Year Ended December 31, 2014 compared with Year Ended December 31, 2013**

As a percent of total 2014 revenues, investment advisory fees accounted for 86% and mutual fund administration fees made up the remaining 14%. This compared to 87% and 13%, respectively, for 2013.



**Investment Advisory Fees.** Investment advisory fees increased by \$19.9 million, or 28%, from the year ended December 31, 2013 to the year ended December 31, 2014. Investment advisory fees are calculated as a percentage of average AUM at various rates depending on the investment product. The increase in investment advisory fees was driven by an increase of 28% in average AUM year over year. The average advisory fee rate for both periods was 0.65%.

**Mutual Fund Administration Fees.** Mutual fund administration fees increased by \$3.2 million, or 28%, from the year ended December 31, 2013 to the year ended December 31, 2014. Mutual fund administration fees include administration fees received from Diamond Hill Funds, which are calculated as a percentage of average mutual fund AUM, and all Beacon Hill fee revenue. The increase in the mutual fund administration fee is due to a 36% increase in average Diamond Hill Fund AUM which increased from \$6.3 billion for the year ended December 31, 2013 to \$8.6 billion for the year ended December 31, 2014. The increase was also partially due to an increase in Beacon Hill's administered umbrella trust AUM period over period. The overall blended net administration fee rate for the Diamond Hill Funds decreased by 1 basis point to 0.14% at the end of 2014.

### **Revenue for the Year Ended December 31, 2013 compared with Year Ended December 31, 2012**

As a percent of total 2013 revenues, investment advisory fees accounted for 86% and mutual fund administration fees made up the remaining 14%. This compared to 87% and 13%, respectively, for 2012.

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**Investment Advisory Fees.** Investment advisory fees increased by \$12.2 million, or 21%, from the year ended December 31, 2012 to the year ended December 31, 2013. Investment advisory fees are calculated as a percentage of average AUM at various rates depending on the investment product. The increase in investment advisory fees was driven by an increase of 17% in average AUM year over year and an increase of three basis points in the average advisory fee rate to 0.65% in 2013 from 0.62% for the year ended December 31, 2012. The increase in the average advisory fee rate is primarily due to a shift in the overall composition of AUM to higher fee rate strategies.

**Mutual Fund Administration Fees.** Mutual fund administration fees increased by \$2.6 million, or 29%, from the year ended December 31, 2012 to the year ended December 31, 2013. Mutual fund administration fees include administration fees received from Diamond Hill Funds, which are calculated as a percentage of average mutual fund AUM, and all Beacon Hill fee revenue. The increase in the mutual fund administration fee is due to a 36% increase in average mutual fund AUM from \$4.8 billion for the year ended December 31, 2012 to \$6.3 billion for the year ended December 31, 2013 while the overall blended net administration fee rate remained flat at 0.15% year over year.

**Expenses**

| (in thousands)                 | 2014      | 2013      | % Change | 2013      | 2012      | % Change |
|--------------------------------|-----------|-----------|----------|-----------|-----------|----------|
| Compensation and related costs | \$ 43,892 | \$ 40,852 | 7%       | \$ 40,852 | \$ 33,868 | 21%      |
| General and administrative     | 8,099     | 6,043     | 34%      | 6,043     | 4,987     | 21%      |
| Sales and marketing            | 2,222     | 2,099     | 6%       | 2,099     | 1,817     | 16%      |
| Mutual fund administration     | 2,885     | 1,756     | 64%      | 1,756     | 1,557     | 13%      |
| Total                          | 57,098    | 50,750    | 13%      | 50,750    | 42,229    | 20%      |

**Expenses for the Year Ended December 31, 2014 compared with Year Ended December 31, 2013**

**Compensation and Related Costs.** Employee compensation and benefits increased by \$3.0 million, or 7%, due to an increase of \$2.4 million in salaries and related benefits due to an increase in staffing and merit levels and an increase of \$0.6 million in incentive compensation during fiscal year 2014 due to growth in the business. Incentive compensation expense can fluctuate significantly period over period as we evaluate incentive compensation by reviewing investment performance, individual performance, company performance and other factors.

**General and Administrative.** General and administrative expenses increased by \$2.1 million, or 34%, from the year ended December 31, 2013 to the year ended December 31, 2014. This increase was primarily due to an additional \$1.1 million of charitable contributions in 2014. The remaining increase was due to additional research expenses to support our investment team, additional rent related to the expansion of our office space and non-income related taxes.

**Sales and Marketing.** Sales and marketing expenses increased by \$0.1 million, or 6%, from the year ended December 31, 2013 to the year ended December 31, 2014. This increase was due to an overall increase in travel and other expenses related to business development efforts. We expect revenue sharing to financial intermediaries who support the distribution of the Funds to increase between \$0.5 million and \$1.0 million in 2015.

**Mutual Fund Administration.** Mutual fund administration expenses increased by \$1.1 million, or 64%, from the year ended December 31, 2013 to the year ended December 31, 2014. Mutual fund administration expenses consist of both variable and fixed expenses. The variable expenses are based on mutual fund AUM and the number of

shareholder accounts. The increase is primarily due to a restructuring of certain servicing contracts for the Funds to shift the expense obligation from the Funds to the Company. This effectively lowered the expense ratio of the Funds by approximately one basis point and increased the mutual fund administration expense of the Company by an equivalent dollar amount. An increase in the average Funds AUM of 36% from the year ended December 31, 2013 to December 31, 2014 also contributed to the increase.

**Expenses for the Year Ended December 31, 2013 compared with Year Ended December 31, 2012**

**Compensation and Related Costs.** Employee compensation and benefits increased by \$7.0 million, or 21%, due to an increase of \$1.7 million in salaries and related benefits due to an increase in staffing and merit levels, an increase of \$1.5 million in restricted stock expense primarily due to accelerated vesting of a restricted stock grant during fiscal year 2013, and an increase of \$3.8 million in incentive compensation during fiscal year 2013 due to growth in the business.

**General and Administrative.** General and administrative expenses increased by \$1.1 million, or 21%, from the year ended December 31, 2012 to the year ended December 31, 2013. This increase was primarily due to additional research expenses to

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support our investment team, an increase in system infrastructure and information technology expenses, additional rent related to the expansion of our office space during fourth quarter 2013, and an increase in corporate legal expenses and non-income related taxes.

**Sales and Marketing.** Sales and marketing expenses increased by \$282 thousand, or 16%, from the year ended December 31, 2012 to the year ended December 31, 2013. This increase was due to an overall increase in travel and other expenses related to business development and retention efforts and expenses related to a review and update of marketing materials.

**Mutual Fund Administration.** Mutual fund administration expenses increased by \$199 thousand, or 13%, from the year ended December 31, 2012 to the year ended December 31, 2013. Mutual fund administration expenses consist of both variable and fixed expenses. The variable expenses are based on mutual fund AUM and the number of shareholder accounts. The increase is due to an increase in average Funds AUM of 33% from the year ended December 31, 2012 to December 31, 2013, offset by a reduction in shareholder maintenance expenses during the current fiscal year and a reduction in expenses incurred by Beacon Hill related to servicing clients.

## **Liquidity and Capital Resources**

### Sources of Liquidity

The Company's main source of liquidity is cash flow from operating activities which are generated from investment advisory and fund administration fees. Our investment portfolio is primarily in readily marketable securities, which provide for cash liquidity, if needed. Investments in mutual funds are valued at their quoted current net asset value. Investments in private investment funds are valued independently. Equity securities in private investment funds are based on readily available market quotations. Debt securities in private investment funds are valued using pricing techniques which take into account factors such as trading activity, readily available market quotations, yield, quality, coupon rate, maturity, type of issue, trading characteristics, call features, credit rates and other observable inputs. Inflation is expected to have no material impact on our performance. Cash and cash equivalents, accounts receivables, and investments represent approximately 91% and 86% of total assets as of December 31, 2014 and 2013 respectively. We believe these sources of liquidity, as well as our continuing cash flows from operating activities, will be sufficient to meet our current and future operating needs for at least the next 12 months.

### Uses of Liquidity

In line with the Company's primary objective to fulfill our fiduciary duty to clients and secondary objective to achieve an adequate long-term return for shareholders, we anticipate our main uses of cash will be operating expenses.

The Board of Directors and management regularly review various factors to determine whether we have capital in excess of that required for the business and the appropriate use of any excess capital. The factors considered include our investment opportunities, capital needed for investment strategies, risks, and future dividend and capital gain tax rates. Evaluating management's stewardship of capital for shareholders is a central part of our investment discipline that we practice for our clients. We hold ourselves to the same standard that we look for when evaluating investments for our clients.

While this is the seventh consecutive year that the Company has paid a special dividend, there can be no assurance that we will pay a dividend in the future. We have paid out special dividends totaling \$53.00 per share from 2008 through 2014. These special dividends reduced shareholders' equity by \$150.1 million over the past seven years. The 2014, 2013 and 2012 special dividend reduced shareholders' equity by \$13.2 million, \$9.8 million and \$16.9 million,

respectively. The 2014 and 2013 special dividend was a qualified dividend for tax purposes and was recorded as a reduction to retained earnings. A portion of the dividend paid in 2012 was a return of capital for tax purposes and we elected to record the dividend as a reduction to retained earnings.

### **Working Capital**

As of December 31, 2014, the Company had working capital of approximately \$66.2 million compared to \$35.9 million at December 31, 2013. Working capital includes cash, securities owned, current receivables and other current assets, net of current liabilities. On October 29, 2014, our board of directors declared a \$4.00 per share dividend payable on December 15, 2014 to shareholders of record on December 5, 2014. The payment of the special cash dividend reduced our working capital balance. The Company has no debt, and believes our available working capital is sufficient to cover current expenses. We expect to have sufficient working capital to cover anticipated capital expenditures that could range from \$0.5 million to \$1.0 million in 2015 related to office expansion to support our growth and \$20.0 million to \$25.0 million for seed capital in new investment strategies.

**Table of Contents****Cash Flow Analysis****Cash Flows from Operating Activities**

The Company's cash flows from operating activities are calculated by adjusting net income to reflect other significant operating sources and uses of cash, certain significant non-cash items such as share-based compensation, and timing differences in the cash settlement of operating assets and liabilities.

As of December 31, 2014, 2013, and 2012, net cash provided by operating activities totaled \$42.6 million, \$34.6 million, and \$24.5 million, respectively. The changes in net cash provided by operating activities generally reflects net income plus the effect of non-cash items and the timing differences in the cash settlement of assets and liabilities.

**Cash Flows from Investing Activities**

The Company's cash flows from investing activities consist primarily of capital expenditures and the purchase and redemption of our investment portfolio.

Cash flows used in investing activities totaled \$26.7 million for the year ended December 31, 2014 related to investments in corporate investments and capital expenditures, partially offset by redemptions of corporate investments in the period. Cash flows provided by investing activities totaled \$1.5 million for the year ended December 31, 2013 related to the net redemptions in corporate investments offset by capital expenditures during the period. Cash flows used in investing activities totaled \$7.4 million for the year ended December 31, 2012 related to net purchases in corporate investments and capital expenditures during the period.

**Cash Flows from Financing Activities**

The Company's cash flows from financing activities consist primarily of the payment of special dividends, the repurchase of common shares, and shares withheld related to employee tax withholding.

As of December 31, 2014, 2013, and 2012, net cash used by financing activities totaled \$13.3 million, \$10.9 million, and \$24.5 million, respectively. The primary cash flows used in financing activities for the periods were special dividends of \$13.2 million, \$9.8 million, and \$25.2 million, respectively.

**Selected Quarterly Information**

Our unaudited quarterly results of operations for the years ended December 31, 2014 and 2013 are summarized below:

|                                       | At or For the Quarter Ended |           |           |           |           |           |           |           |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                                       | 2014                        |           |           | 2013      |           |           |           |           |
| (in thousands, except per share data) | 12/31                       | 09/30     | 06/30     | 03/31     | 12/31     | 09/30     | 06/30     | 03/31     |
| Operating income                      | \$ 15,656                   | \$ 14,474 | \$ 14,204 | \$ 12,986 | \$ 12,186 | \$ 11,040 | \$ 10,427 | \$ 10,427 |
| Operating expenses                    | 28,471                      | 27,459    | 25,440    | 23,189    | 22,324    | 20,819    | 19,914    | 19,914    |
| Income before income taxes            | 10,240                      | 16,475    | 15,766    | 14,617    | 12,890    | 13,350    | 12,762    | 12,762    |
| Income tax expense                    | 18,231                      | 10,984    | 9,674     | 8,572     | 9,434     | 7,469     | 7,152     | 7,152     |

|                             |           |          |          |          |          |          |          |    |
|-----------------------------|-----------|----------|----------|----------|----------|----------|----------|----|
| Net income (loss)           | 2,073     | (1,006)  | 1,322    | 517      | 1,482    | 914      | 729      |    |
| Income                      | \$ 12,553 | \$ 6,351 | \$ 6,928 | \$ 5,750 | \$ 6,750 | \$ 5,362 | \$ 4,712 | \$ |
| EPS                         | \$ 3.81   | \$ 1.94  | \$ 2.12  | \$ 1.78  | \$ 2.10  | \$ 1.67  | \$ 1.45  | \$ |
| Weighted shares outstanding | 3,292     | 3,281    | 3,268    | 3,231    | 3,222    | 3,212    | 3,248    |    |

### Contractual Obligations

The following table presents a summary of the Company's future obligations under the terms of operating leases and lease commitments, other contractual purchase obligations, and deferred compensation obligations at December 31, 2014. Other purchase obligations include contractual amounts that will be due for the purchase of services to be used in our operations, such as mutual fund sub-administration and portfolio accounting software. These obligations may be cancelable at earlier times than those indicated and, under certain conditions, may involve termination fees. The deferred compensation obligations includes compensation that will be paid out upon satisfactory completion of certain performance-based and time-based criteria (see Note 2: Deferred Compensation Liability). Because these obligations are of a normal recurring nature, we expect to fund them from

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future cash flows from operations. The information presented does not include operating expenses or capital expenditures that will be committed in the normal course of operations in 2015 and future years:

| (in thousands)                    | Total     | Payments Due by Period |           |           |          |
|-----------------------------------|-----------|------------------------|-----------|-----------|----------|
|                                   |           | 2015                   | 2016-2017 | 2018-2019 | Later    |
| Operating lease obligations       | \$ 6,282  | \$ 697                 | \$ 1,392  | \$ 1,228  | \$ 2,965 |
| Purchase obligations              | 5,402     | 3,696                  | 1,706     |           |          |
| Deferred compensation obligations | 5,679     | 1,798                  |           | 1,436     | 2,445    |
| Total                             | \$ 17,363 | \$ 6,191               | \$ 3,098  | \$ 2,664  | \$ 5,410 |

The total operating lease obligations and purchase obligations include \$0.3 million and \$0.1 million, respectively, of obligations resulting from a contractual expense reimbursement agreement ( Expense Agreement ) with a third party. Under the Expense Agreement, these amounts are expected to be reimbursed to the Company by the third party. The obligation of the third party to reimburse us for these expenses survives the termination of the Expense Agreement. See Note 2: Contractual Expense Reimbursements.

**Use of Supplemental Data as Non-GAAP Performance Measure****Net Operating Income After Tax**

As supplemental information, we are providing performance measures that are based on methodologies other than generally accepted accounting principles ( non-GAAP ) for Net Operating Income After Tax that management uses as benchmarks in evaluating and comparing the period-to-period operating performance of the Company and subsidiaries.

The Company defines net operating income after tax as the Company's net operating income less income tax provision, excluding investment related activity and the tax impact related to the investment related activity. The Company believes that net operating income after tax provides a good representation of the Company's operating performance, as it excludes the impact of investment related activity on financial results. The amount of the investment portfolio and market fluctuations on the investments can change significantly from one period to another, which can distort the underlying earnings potential of a company. We also believe net operating income after tax is an important metric in estimating the value of an asset management business. This non-GAAP measure is provided in addition to net income and net operating income and is not a substitute for net income or net operating income and may not be comparable to non-GAAP performance measures of other companies.

| (in thousands, except per share data)               | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2014                    | 2013      | 2012      |
| Net operating income, GAAP basis                    | \$ 47,460               | \$ 30,682 | \$ 24,428 |
| Non-GAAP adjustments:                               |                         |           |           |
| Tax provision excluding impact of investment income | (17,701)                | (11,605)  | (8,571)   |
| Net operating income after tax, non-GAAP basis      | \$ 29,759               | \$ 19,077 | \$ 15,857 |



|  |    |       |    |       |    |       |
|--|----|-------|----|-------|----|-------|
| Net operating income after tax per diluted share, non-GAAP basis | \$ | 9.11  | \$ | 5.97  | \$ | 5.10  |
| Diluted weighted average shares outstanding, GAAP basis          |    | 3,266 |    | 3,194 |    | 3,111 |

The tax provision excluding impact of investment related activity is calculated by applying the tax rate from the actual tax provision to net operating income.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements. We do not have any obligation under a guarantee contract, or a retained or contingent interest in assets or similar arrangement that serves as credit, liquidity or market risk support for such assets, or any other obligation, including a contingent obligation, under a contract that would be accounted for as a derivative instrument or arising out of a variable interest.

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### **Critical Accounting Policies and Estimates**

*Provisions for Income Taxes.* The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns.

*Revenue Recognition on Incentive-Based Advisory Contracts.* We have certain investment advisory contracts in which a portion of the fees are based on investment performance achieved in the respective client portfolio in excess of a specified hurdle rate. These fees are calculated based on client investment results over rolling five year periods. The Company records variable incentive fees at the end of the contract measurement period.

*Revenue Recognition when Acting as an Agent vs. Principal.* The Funds have selected and contractually engaged certain vendors to fulfill various services to benefit the Funds' shareholders or to satisfy regulatory requirements of the Funds. These services include, among others, required fund shareholder mailings, registration services, and legal and audit services. DHCM, in fulfilling a portion of its role under the administration agreement with the Funds, acts as agent to pay these obligations of the Funds. Each vendor is independently responsible for fulfillment of the services it has been engaged to provide and negotiates fees and terms with the management and board of trustees of the Funds. The fee that the Funds pay to DHCM is reviewed annually by the Funds' board of trustees and specifically takes into account the contractual expenses that DHCM pays on behalf of the Funds. As a result, DHCM is not involved in the delivery or pricing of these services and bears no risk related to these services. Revenue has been recorded net of these Fund expenses, as it is the appropriate accounting treatment for this agency relationship.

Beacon Hill has underwriting agreements with certain clients, including registered mutual funds. Part of Beacon Hill's role as underwriter is to act as an agent on behalf of its mutual fund clients to receive 12b-1/service fees and commission revenue and facilitate the payment of those fees and commissions to third parties who provide services to the funds and their shareholders. The amount of 12b-1/service fees and commissions are determined by each mutual fund client and Beacon Hill bears no financial risk related to these services. As a result, 12b-1/service fees and commission revenue has been recorded net of the expense payments to third parties, as it is the appropriate accounting treatment for this agency relationship.

### **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

The Company's revenues and net income are based primarily on the value of AUM. Accordingly, declines in financial market values directly and negatively impact our investment advisory revenues and net income.

We invest in Diamond Hill Funds and our private investment funds, which are market risk sensitive financial instruments. These investments have inherent market risk in the form of price risk; that is, the potential future loss of value that would result from a decline in their fair value. Market prices fluctuate and the amount realized upon subsequent sale may differ significantly from the reported market value.

The table below summarizes our market risks as of December 31, 2014, and shows the effects of a hypothetical 10% increase and decrease in investments.

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|                          | Fair Value as of<br>December 31, 2014 | Fair Value<br>Assuming a<br>Hypothetical<br>10% Increase | Fair Value<br>Assuming a<br>Hypothetical<br>10% Decrease |
|--------------------------|---------------------------------------|--|--|
| Equity investments       | \$ 35,103,421                         | \$ 38,613,763  | \$ 31,593,079  |
| Fixed Income investments | 10,324,035                            | 11,356,439   | 9,291,632  |
| Total                    | \$ 45,427,456                         | \$ 49,970,202  | \$ 40,884,711  |

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**ITEM 8. Financial Statements and Supplementary Data**  
**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Diamond Hill Investment Group, Inc.:

We have audited the accompanying consolidated balance sheets of Diamond Hill Investment Group, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Diamond Hill Investment Group, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Columbus, Ohio

February 27, 2015

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Diamond Hill Investment Group, Inc.:

We have audited Diamond Hill Investment Group Inc. s (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting appearing under Item 9A of the Company s December 31, 2014 annual report on Form 10-K. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Diamond Hill Investment Group, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 27, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Columbus, Ohio

February 27, 2015

**Table of Contents****Diamond Hill Investment Group, Inc.****Consolidated Balance Sheets**

|   | December 31,   |               |
|---|----------------|---------------|
|   | 2014           | 2013          |
| <b>ASSETS</b>   |                |               |
| Cash and cash equivalents   | \$ 35,777,140  | \$ 33,106,972 |
| Investment portfolio  | 45,427,456     | 18,726,070    |
| Accounts receivable   | 16,514,146     | 13,002,295    |
| Prepaid expenses  | 1,904,945      | 1,489,713     |
| Property and equipment, net of depreciation   | 2,425,949      | 964,943       |
| Deferred taxes  | 5,658,992      | 8,063,425     |
| <br>  |                |               |
| Total assets  | \$ 107,708,628 | \$ 75,353,418 |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                |               |
| <b>Liabilities</b>  |                |               |
| Accounts payable and accrued expenses   | \$ 6,550,770   | \$ 4,049,240  |
| Accrued incentive compensation  | 19,981,250     | 19,606,881    |
| Deferred compensation   | 5,678,764      | 1,287,745     |
| Income taxes payable  | 1,178,620      | 5,466,562     |
| <br>  |                |               |
| Total liabilities   | 33,389,404     | 30,410,428    |
| <br>  |                |               |
| <b>Shareholders Equity</b>  |                |               |
| Common stock, no par value  |                |               |
| 7,000,000 shares authorized; 3,317,728 issued and outstanding at<br>December 31, 2014 (inclusive of 306,768 unvested shares); 3,257,247 issued<br>and outstanding at December 31, 2013 (inclusive of 312,099 unvested shares) | 84,855,693     | 72,642,933    |
| Preferred stock, undesignated, 1,000,000 shares authorized and unissued   |                |               |
| Deferred equity compensation  | (12,566,133)   | (11,397,560)  |
| Accumulated income/(deficit)  | 2,029,664      | (16,302,383)  |
| <br>  |                |               |
| Total shareholders equity   | 74,319,224     | 44,942,990    |
| <br>  |                |               |
| Total liabilities and shareholders equity   | \$ 107,708,628 | \$ 75,353,418 |
| <br>  |                |               |
| Book value per share  | \$ 22.40       | \$ 13.80      |

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Diamond Hill Investment Group, Inc.****Consolidated Statements of Income**

|                                     | Year Ended December 31, |               |               |
|-------------------------------------|-------------------------|---------------|---------------|
|                                     | 2014                    | 2013          | 2012          |
| <b>REVENUES:</b>                    |                         |               |               |
| Investment advisory                 | \$ 89,900,834           | \$ 69,966,377 | \$ 57,783,131 |
| Mutual fund administration, net     | 14,657,931              | 11,465,327    | 8,874,177     |
| Total revenue                       | 104,558,765             | 81,431,704    | 66,657,308    |
| <b>OPERATING EXPENSES:</b>          |                         |               |               |
| Compensation and related costs      | 43,892,336              | 40,851,722    | 33,868,225    |
| General and administrative          | 8,099,410               | 6,042,781     | 4,986,559     |
| Sales and marketing                 | 2,222,382               | 2,098,915     | 1,817,124     |
| Mutual fund administration          | 2,884,495               | 1,756,366     | 1,556,909     |
| Total operating expenses            | 57,098,623              | 50,749,784    | 42,228,817    |
| <b>NET OPERATING INCOME</b>         | 47,460,142              | 30,681,920    | 24,428,491    |
| Investment income                   | 2,905,794               | 4,950,245     | 1,654,124     |
| <b>INCOME BEFORE TAXES</b>          | 50,365,936              | 35,632,165    | 26,082,615    |
| Income tax provision                | (18,785,005)            | (13,477,337)  | (9,151,723)   |
| <b>NET INCOME</b>                   | \$ 31,580,931           | \$ 22,154,828 | \$ 16,930,892 |
| Earnings per share                  |                         |               |               |
| Basic                               | \$ 9.88                 | \$ 7.05       | \$ 5.44       |
| Diluted                             | \$ 9.67                 | \$ 6.94       | \$ 5.44       |
| Weighted average shares outstanding |                         |               |               |
| Basic                               | 3,196,127               | 3,142,083     | 3,111,328     |
| Diluted                             | 3,266,168               | 3,194,263     | 3,111,328     |

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****Diamond Hill Investment Group, Inc.****Consolidated Statements of Shareholders Equity**

|  | Shares<br>Outstanding | Common<br>Stock | Deferred Equity<br>Compensation | Accumulated<br>Income/(Deficit) | Total         |
|--|-----------------------|-----------------|---------------------------------|---------------------------------|---------------|
| Balance at<br>January 1,<br>2012   | 2,995,814             | \$ 49,995,622   | \$ (11,539,632)                 | \$ (20,405,632)                 | \$ 18,050,358 |
| Issuance of<br>restricted<br>stock grants  | 107,600               | 8,139,135       | (8,139,135)                     |                                 |               |
| Amortization<br>of restricted<br>stock grants  |                       |                 | 4,693,926                       |                                 | 4,693,926     |
| Issuance of<br>stock grants  | 71,949                | 5,540,792       |                                 |                                 | 5,540,792     |
| Issuance of<br>common stock<br>related to<br>401k plan<br>match                      | 14,239                | 1,057,056       |                                 |                                 | 1,057,056     |
| Tax benefit<br>from dividend<br>payments<br>related to<br>restricted<br>stock grants |                       | 1,992,298       |                                 |                                 | 1,992,298     |
| Net excess tax<br>benefit from<br>vested<br>restricted<br>stock grants               |                       | 34,543          |                                 |                                 | 34,543        |
| Shares<br>withheld<br>related to<br>employee tax<br>withholding                      | (17,438)              | (1,348,262)     |                                 |                                 | (1,348,262)   |
| Forfeiture of<br>restricted<br>stock grants  | (2,177)               | (155,371)       | 155,371                         |                                 |               |
| Cash<br>Dividend Paid<br>of \$8.00 per<br>share                                      |                       |                 |                                 | (25,215,896)                    | (25,215,896)  |

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|   |           |               |                 |                 |               |            |
|---|-----------|---------------|-----------------|-----------------|---------------|------------|
| Net income  |           |               |                 |                 | 16,930,892    | 16,930,892 |
| Balance at December 31, 2012  | 3,169,987 | \$ 65,255,813 | \$ (14,829,470) | \$ (28,690,636) | \$ 21,735,707 |            |
| Issuance of restricted stock grants                                   | 32,000    | 2,740,030     | (2,740,030)     |                 |               |            |
| Amortization of restricted stock grants                               |           |               | 6,161,047       |                 | 6,161,047     |            |
| Issuance of stock grants  | 59,006    | 4,606,008     |                 |                 | 4,606,008     |            |
| Issuance of common stock related to 401k plan match                   | 12,894    | 1,158,354     |                 |                 | 1,158,354     |            |
| Tax benefit from dividend payments related to restricted stock grants |           | 357,188       |                 |                 | 357,188       |            |
| Net excess tax benefit from vested restricted stock grants            |           | 420,620       |                 |                 | 420,620       |            |
| Shares withheld related to employee tax withholding                   | (16,500)  | (1,884,187)   |                 |                 | (1,884,187)   |            |
| Forfeiture of restricted stock grants                                 | (140)     | (10,893)      | 10,893          |                 |               |            |
| Cash Dividend Paid of \$3.00 per share                                |           |               |                 | (9,766,575)     | (9,766,575)   |            |
| Net income  |           |               |                 | 22,154,828      | 22,154,828    |            |
| Balance at December 31, 2013  | 3,257,247 | \$ 72,642,933 | \$ (11,397,560) | \$ (16,302,383) | \$ 44,942,990 |            |
| Issuance of restricted stock grants                                   | 31,613    | 7,518,895     | (7,518,895)     |                 |               |            |

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|   |           |               |                 |              |               |
|---|-----------|---------------|-----------------|--------------|---------------|
| Amortization of restricted stock grants                               |           |               | 5,716,035       |              | 5,716,035     |
| Issuance of stock grants  | 33,745    | 3,984,816     |                 |              | 3,984,816     |
| Issuance of common stock related to 401k plan match                   | 10,999    | 1,356,035     |                 |              | 1,356,035     |
| Tax benefit from dividend payments related to restricted stock grants |           | 296,755       |                 |              | 296,755       |
| Net excess tax benefit from vested restricted stock grants            |           | 666,889       |                 |              | 666,889       |
| Shares withheld related to employee tax withholding                   | (7,663)   | (976,343)     |                 |              | (976,343)     |
| Forfeiture of restricted stock grants                                 | (8,213)   | (634,287)     | 634,287         |              |               |
| Cash Dividend Paid of \$4.00 per share                                |           |               |                 | (13,248,884) | (13,248,884)  |
| Net income  |           |               |                 | 31,580,931   | 31,580,931    |
| Balance at December 31, 2014  | 3,317,728 | \$ 84,855,693 | \$ (12,566,133) | \$ 2,029,664 | \$ 74,319,224 |

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Diamond Hill Investment Group, Inc.****Consolidated Statements of Cash Flows**

|   | Year Ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2014                    | 2013          | 2012          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                         |               |               |
| Net Income  | \$ 31,580,931           | \$ 22,154,828 | \$ 16,930,892 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |               |               |
| Depreciation  | 301,936                 | 306,005       | 305,897       |
| Stock-based compensation  | 7,303,799               | 7,319,401     | 5,750,981     |
| Increase in accounts receivable   | (3,511,851)             | (2,563,697)   | (142,875)     |
| Change in current income taxes  | (3,324,298)             | 8,520,834     | (105,166)     |
| Change in deferred income taxes   | 2,404,433               | (5,616,211)   | (368,572)     |
| Net investment gain   | (1,517,662)             | (4,270,928)   | (1,135,598)   |
| Increase in accrued compensation  | 8,518,476               | 8,797,907     | 5,469,062     |
| Excess income tax benefit from stock-based compensation                           | (666,889)               | (425,380)     | (34,543)      |
| Income tax benefit from dividends paid on unvested shares                         | (296,755)               | (357,188)     | (1,992,298)   |
| Other changes in assets and liabilities   | 1,827,723               | 715,570       | (131,087)     |
| Net cash provided by operating activities   | 42,619,843              | 34,581,141    | 24,546,693    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                         |               |               |
| Purchase of property and equipment  | (1,504,368)             | (525,472)     | (221,592)     |
| Cost of investments purchased and other portfolio activity                        | (25,433,201)            | (2,306,947)   | (7,463,796)   |
| Proceeds from sale of investments   | 249,477                 | 4,355,536     | 304,152       |
| Net cash provided by (used in) investing activities                               | (26,688,092)            | 1,523,117     | (7,381,236)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                         |               |               |
| Value of shares withheld related to employee tax withholding                      | (976,343)               | (1,884,187)   | (1,348,262)   |
| Excess income tax benefit from stock-based compensation                           | 666,889                 | 425,380       | 34,543        |
| Income tax benefit from dividends paid on unvested shares                         | 296,755                 | 357,188       | 1,992,298     |
| Payment of dividends  | (13,248,884)            | (9,766,575)   | (25,215,896)  |
| Net cash used in financing activities   | (13,261,583)            | (10,868,194)  | (24,537,317)  |

**CASH AND CASH EQUIVALENTS**

|                            |               |               |              |
|----------------------------|---------------|---------------|--------------|
| Net change during the year | 2,670,168     | 25,236,064    | (7,371,860)  |
| At beginning of year       | 33,106,972    | 7,870,908     | 15,242,768   |
| At end of year             | \$ 35,777,140 | \$ 33,106,972 | \$ 7,870,908 |

## Supplemental cash flow information:

|   |            |            |           |
|---|------------|------------|-----------|
| Interest paid                                     | \$         | \$         | \$        |
| Income taxes paid                                 | 19,704,817 | 10,575,000 | 9,636,000 |
| Supplemental disclosure of non-cash transactions: |            |            |           |
| Common stock issued as compensation               | 3,984,816  | 4,606,008  | 5,540,792 |

The accompanying notes are an integral part of these consolidated financial statements.

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### **Diamond Hill Investment Group, Inc.**

#### **Notes to Consolidated Financial Statements**

##### Note 1 Business and Organization

Diamond Hill Investment Group, Inc. (the Company), an Ohio Corporation, derives its consolidated revenues and net income from investment advisory and fund administration services. The Company has three operating subsidiaries.

Diamond Hill Capital Management, Inc. ( DHCM ), an Ohio corporation, is a wholly owned subsidiary of the Company and a registered investment adviser. DHCM is the investment adviser to the Diamond Hill Funds (the Funds ), a series of open-end mutual funds, private investment funds ( Private Funds ), and other institutional accounts. In addition, DHCM is administrator for the Funds.

Beacon Hill Fund Services, Inc. ( BHFS ), an Ohio corporation, is a wholly owned subsidiary of the Company. BHFS provides certain compliance, treasury, and other fund administration services to investment advisers and mutual funds. BHIL Distributors, Inc. ( BHIL ), an Ohio corporation, is a wholly owned subsidiary of BHFS. BHIL provides underwriting services to mutual funds. BHFS and BHIL collectively operate as Beacon Hill .

##### Note 2 Significant Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses for the periods. Actual results could differ from those estimates. Certain prior period amounts and disclosures have been reclassified to conform to the current period financial presentation. Book value per share is computed by dividing total shareholders' equity by the number of shares issued and outstanding at the end of the measurement period. The following is a summary of the Company's significant accounting policies:

##### Principles of Consolidation

The accompanying consolidated financial statements include the operations of the Company and its subsidiaries. All inter-company transactions and balances have been eliminated in consolidation.

##### Segment Information

Management has determined that the Company operates in one business segment, namely providing investment management and administration services to mutual funds, institutional accounts, and private investment funds. Therefore, no disclosures relating to operating segments are required in the annual financial statements.

##### Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and money market mutual funds.

##### Accounts Receivable

Accounts receivable are recorded when they are due and are presented on the balance sheet net of any allowance for doubtful accounts. Accounts receivable are written off when they are determined to be uncollectible. Any allowance

for doubtful accounts is estimated based on the Company's historical losses, existing conditions in the industry, and the financial stability of those individuals or entities that owe the receivable. No allowance for doubtful accounts was deemed necessary at December 31, 2014 or 2013.

Valuation of Investment Portfolio

Investments held by the Company are classified as trading securities and are valued based upon the definition of Level 1 inputs and Level 2 inputs. Level 1 inputs are defined as fair values which use quoted prices in active markets for identical assets or liabilities. Level 2 inputs are defined as quoted prices in markets that are not considered to be active for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities, and inputs other than quoted prices that are directly observable or that may be corroborated indirectly with observable market data. The following table summarizes the values of the Company's investments based upon Level 1 and Level 2 inputs as of December 31, 2014 and 2013:

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|                | As of December 31, |               |
|----------------|--------------------|---------------|
|                | 2014               | 2013          |
| Level 1 Inputs | \$ 62,595,546      | \$ 32,528,367 |
| Level 2 Inputs | \$ 14,652,589      | 3,001,461     |

Level 1 investments are all registered investment companies (mutual funds) and include \$31.8 million and \$16.8 million, respectively, of money market mutual funds that the Company classifies as cash equivalents. Level 2 investments are all limited partnerships who are valued independently. Equity securities in limited partnerships are based on readily available market quotations. Debt securities in limited partnerships are valued using pricing techniques which take into account factors such as trading activity, readily available market quotations, yield, quality, coupon rate, maturity, type of issue, trading characteristics, call features, credit rates and other observable inputs. The Company determines transfers between fair value hierarchy levels at the end of the reporting period. There were no transfers in or out of the levels.

The changes in fair values on the investments are recorded in the Consolidated Statements of Income as investment income.

**Limited Partnership Interests**

DHCM is the managing member of Diamond Hill General Partner, LLC (the General Partner), the general partner of Diamond Hill Investment Partners, L.P. ( DHIP ), Diamond Hill Global Fund, L.P. ( DHGF ), formerly Diamond Hill Research Partners International, L.P., and Diamond Hill Valuation-Weighted 500, L.P. ( DHVW ) collectively (the Partnerships), each a limited partnership whose underlying assets consist of marketable securities.

DHCM, in its role as managing member of the General Partner, has the power to direct each Partnerships economic activities and the right to receive investment advisory and performance incentive fees that may be significant to the Partnerships. The Company evaluated these Partnerships to determine whether or not to consolidate the entities in accordance with Financial Accounting Standards Board Accounting Standards Codification ( FASB ASC ) 810, *Consolidation*. Certain of these Partnerships are considered to be variable interest entities ( VIEs ) while others are considered to be voting rights entities ( VREs ), both of which are subject to consolidation consideration. The Company would consolidate VIEs where the Company is considered the primary beneficiary or VREs where the General Partner is considered to control the Partnership. For the Partnerships that were considered VIEs, the Company was not deemed to be the primary beneficiary. For the Partnerships that were considered VREs, it was determined that the DHCM in its role of managing member of the General Partner did not control the Partnerships. Therefore, the investments are accounted for under the equity method rather than being consolidated in the accompanying financial statements.

DHCM s investments in these Partnerships are reported as a component of the Company s investment portfolio, valued at DHCM s proportionate interest in the net asset value of the marketable securities held by the Partnerships. The Partnerships are not subject to lock up periods and can be redeemed on demand. Gains and losses attributable to changes in the value of DHCM s interests in the Partnerships are included in the Company s reported investment income. The Company s exposure to loss as a result of its involvement with the Partnerships is limited to the amount of its investments. DHCM is not obligated to provide financial or other support to the Partnerships, other than its investments to date and its contractually provided investment advisory responsibilities, and has not provided such support. The Company has not provided liquidity arrangements, guarantees or other commitments to support the Partnerships operations, and the Partnerships creditors and interest holders have no recourse to the general credit of the Company.



Certain board members, officers and employees of the Company invest in DHIP and are not subject to a management fee or an incentive fee. These individuals receive no remuneration as a result of their personal investment in DHIP. The capital of the General Partner is not subject to a management fee or an incentive fee.

Property and Equipment

Property and equipment, consisting of leasehold improvements, computer equipment, furniture and fixtures, are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated life of the assets.

Deferred Compensation Liability

Deferred compensation liability represents compensation that will be paid out upon satisfactory completion of certain performance-based and time-based criteria specified in employee award agreements issued pursuant to the 2014 and 2011 Equity and Cash Incentive Plans. See Note 5.

**Table of Contents****Revenue Recognition – General**

The Company earns substantially all of its revenue from investment advisory and fund administration services. Investment advisory and administration fees, generally calculated as a percentage of AUM, are recorded as revenue as services are performed. In addition to fixed fees based on a percentage of AUM, certain client accounts also provide periodic variable incentive fees.

**Revenue Recognition – Variable Incentive Fees**

The Company manages certain client accounts that provide for variable incentive fees. These fees are calculated based on client investment results over rolling five year periods. The Company records variable incentive fees at the end of the contract measurement period. No variable incentive fees were earned during the twelve months ended December 31, 2014 and 2013. The table below shows AUM subject to variable incentive fees and the amount of variable incentive fees that would be recognized if the contracts were terminated as of the twelve months ended December 31, 2014 and 2013:

|   | As Of December 31, |                |
|---|--------------------|----------------|
|   | 2014               | 2013           |
| AUM subject to variable incentive fees  | \$ 562,613,027     | \$ 470,726,000 |
|   | For the Year Ended |                |
|   | 2014               | 2013           |
| Contractual Period Ends:  |                    |                |
| Quarter Ended June 30, 2017   | \$ 2,427,031       | \$ 3,900,649   |
| Quarter Ended December 31, 2018   |                    |                |
| Quarter Ended September 30, 2019  | 31,049             |                |
| Total variable incentive fees that would be recognized if contract terminated | \$ 2,458,080       | \$ 3,900,649   |

The contractual end dates highlight the time remaining until the variable incentive fees are scheduled to be earned. The amount of variable incentive fees that would be recognized if the contracts were terminated as of December 31, 2014 or 2013 will increase or decrease based on future client investment results through the contractual period end, and there is no assurance that the above amounts will ultimately be earned.

**Revenue Recognition – Mutual Fund Administration**

DHCM has an administrative and transfer agency services agreement with the Funds, under which DHCM performs certain services for each Fund. These services include mutual fund administration, fund accounting, transfer agency and other related functions. For performing these services, each fund pays DHCM a fee, which is calculated using an annual rate of 0.25% for Class A, C, and I shares and 0.10% for Class Y shares, times the average daily net assets of each respective series and share class.

The Funds have selected and contractually engaged certain vendors to fulfill various services to benefit the Funds shareholders or to satisfy regulatory requirements of the Funds. These services include, among others, required shareholder mailings, federal and state registrations, and legal and audit services. DHCM, in fulfilling a portion of its role under the administration agreement with the Funds, acts as agent to pay these obligations of the Funds. Each vendor is independently responsible for fulfillment of the services it has been engaged to provide and negotiates fees and terms with the management and board of trustees of the Funds. The fee that each Fund pays to DHCM is reviewed annually by the Funds' board of trustees and specifically takes into account the contractual expenses that DHCM pays on behalf of the Funds. As a result, DHCM is not involved in the delivery or pricing of these services and bears no risk related to these services. Revenue has been recorded net of these Fund related expenses, in accordance with FASB ASC 605-45, *Revenue Recognition - Principal Agent Considerations*. In addition, DHCM finances the upfront commissions which are paid to brokers who sell Class C shares of the Funds. As financier, DHCM advances the commission amount to be paid to the selling broker at the time of sale. These advances are capitalized and amortized over 12 months to correspond with the repayments DHCM receives from the principal underwriter to recoup this commission advancement.

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Beacon Hill has underwriting and administrative service agreements with certain clients, including registered mutual funds. The fee arrangements vary from client to client based upon services provided and are recorded as revenue under mutual fund administration on the Consolidated Statements of Income. Part of Beacon Hill's role as underwriter is to act as an agent on behalf of its mutual fund clients to receive 12b-1/service fees and commission revenue and facilitate the payment of those fees and commissions to third parties who provide services to the funds and their shareholders. The majority of 12b-1/service fees are paid to independent third parties and the remainder are retained by the Company as a reimbursement of expenses the Company has incurred. The amount of 12b-1/service fees and commissions are determined by each mutual fund client, and Beacon Hill bears no financial risk related to these services. As a result, 12b-1/service fees and commission revenue has been recorded net of the expense payments to third parties, in accordance with the appropriate accounting treatment for this agency relationship.

Mutual fund administration gross and net revenue are summarized below:

|  | Year Ended December 31, |                      |                     |
|--|-------------------------|----------------------|---------------------|
|  | 2014                    | 2013                 | 2012                |
| <b>Mutual fund administration:</b>                                   |                         |                      |                     |
| Administration revenue, gross  | \$ 22,968,369           | \$ 16,692,093        | \$ 13,074,707       |
| 12b-1/service fees and commission revenue received from fund clients | 10,514,242              | 8,481,442            | 6,868,974           |
| 12b-1/service fees and commission expense payments to third parties  | (9,102,565)             | (7,404,361)          | (5,597,757)         |
| Fund related expense   | (9,753,359)             | (6,321,374)          | (5,469,023)         |
| Revenue, net of related expenses                                     | 14,626,687              | 11,447,800           | 8,876,901           |
| <b>DHCM C-Share financing:</b>                                       |                         |                      |                     |
| Broker commission advance repayments                                 | 878,105                 | 365,380              | 217,227             |
| Broker commission amortization                                       | (846,861)               | (347,853)            | (219,951)           |
| Financing activity, net  | 31,244                  | 17,527               | (2,724)             |
| <b>Mutual fund administration revenue, net</b>                       | <b>\$ 14,657,931</b>    | <b>\$ 11,465,327</b> | <b>\$ 8,874,177</b> |

**Contractual Expense Reimbursements**

During the fourth quarter of 2013, BHIL entered into an agreement with an investment adviser that is part of the umbrella trust sponsored by BHFS to provide staff to support the wholesaling functions and sales support services to distribute shares of the registered investment companies managed by the investment adviser and distributed by BHIL. Under the agreement, the investment adviser is obligated to reimburse BHIL for all expenses incurred in association with these efforts. The amount of expense incurred and reimbursed for the year ended December 31, 2014, 2013, and 2012 was \$1,849,786, \$375,825, and \$0, respectively. In addition, the third party investment adviser is obligated to reimburse BHIL for any contractual obligations entered into by BHIL as a result of this arrangement. BHIL is not involved in the delivery or pricing of these services and bears no risk related to these services. Revenue has been recorded net of these expenses in accordance with FASB ASC 605-45, *Revenue Recognition - Principal Agent Considerations*.

Income Taxes

The Company accounts for current and deferred income taxes through an asset and liability approach. Deferred taxes are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company is subject to examination by various federal, state and local jurisdictions for various tax periods. The Company's income tax positions are based on research and interpretations of the income tax laws and rulings in each of the jurisdictions in which the Company does business. Due to the subjectivity of interpretations of laws and rulings in each jurisdiction, the differences and interplay in tax laws between those jurisdictions, as well as the inherent uncertainty in estimating the final resolution of complex tax audit matters, the Company's estimates of income tax liabilities may differ from actual payments or assessments. The Company regularly assesses its position with regard to tax exposures and records liabilities for these uncertain tax positions and related interest and penalties, if any, according to the principles of FASB ASC 740, *Income Taxes*. As of

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December 31, 2014, the Company has not recorded any liability for uncertain tax positions. The Company records interest and penalties, if any, within the income tax provision on the income statement.

**Earnings Per Share**

Basic earnings per share ( EPS ) excludes dilution and is computed by dividing net income by the weighted average number of Common Shares outstanding for the period, which includes participating securities. Diluted EPS reflects the potential dilution of EPS due to unvested restricted stock grants with forfeitable rights to dividends. For the periods presented, the Company has unvested stock-based payment awards that contain both forfeitable and nonforfeitable rights to dividends. See Note 8.

**Recently Issued Accounting Standards**

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, which supersedes existing accounting standards for revenue recognition and creates a single framework. The new guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period and requires either a retrospective or a modified retrospective approach to adoption. The Company is currently evaluating the new guidance and does not expect it to have a material impact on its consolidated financial statements and related disclosures, as well as the transition methods. Early adoption is prohibited.

**Note 3 Investment Portfolio**

As of December 31, 2014, the Company held investments (excluding money market funds, included with cash and cash equivalents) worth \$45.4 million and an estimated cost basis of \$37.1 million. The following table summarizes the fair value of these investments as of December 31, 2014 and 2013:

|   | <b>As of December 31,</b> |               |
|---|---------------------------|---------------|
|   | <b>2014</b>               | <b>2013</b>   |
| Seed Capital Investments:                 |                           |               |
| Diamond Hill Research Opportunities Fund  | \$ 13,143,281             | \$ 13,305,830 |
| Diamond Hill Mid Cap Fund                 | 10,729,930                |               |
| Diamond Hill Financial Long-Short Fund    | 1,222,892                 | 1,131,034     |
| Diamond Hill High Yield Fund, L.P.        | 9,764,814                 |               |
| Diamond Hill Valuation-Weighted 500, L.P. | 3,398,035                 | 3,000,328     |
| Diamond Hill Global Fund, L.P.            | 1,489,740                 |               |
| Diamond Hill Investment Partners, L.P.    |                           | 1,133         |
| Total Seed Capital Investments            | 39,748,692                | 17,438,325    |
| Deferred Compensation Investments         | 5,678,764                 | 1,287,745     |
| Total Investment Portfolio                | \$ 45,427,456             | \$ 18,726,070 |

The deferred compensation investments above consists of Diamond Hill Funds and relate to deferred compensation liabilities from both deferred compensation plans (refer to Note 5) and other deferred compensation arrangements.



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DHCM is the managing member of the General Partner, which is the general partner of the Partnerships. The underlying assets of the Partnerships are cash, marketable equity securities and fixed income securities. Summary financial information, including the Company's carrying value and income from the Partnerships, is as follows:

|                               | As of December 31,              |                |                |
|-------------------------------|---------------------------------|----------------|----------------|
|                               | 2014                            | 2013           | 2012           |
| Total partnership assets      | \$ 128,182,211                  | \$ 122,106,403 | \$ 105,472,952 |
| Total partnership liabilities | 21,782,571                      | 25,217,600     | 17,786,579     |
| Net partnership assets        | \$ 106,399,640                  | \$ 96,888,803  | \$ 87,686,373  |
| DHCM's portion of net assets  | \$ 14,652,589                   | \$ 3,001,461   | \$ 3,650,561   |
|                               | For the Year Ended December 31, |                |                |
|                               | 2014                            | 2013           | 2012           |
| Net partnership income        | \$ 8,870,418                    | \$ 24,294,495  | \$ 15,054,951  |
| DHCM's portion of net income  | \$ 491,951                      | \$ 899,958     | \$ 472,659     |

Note 4 Capital StockCommon Shares

The Company has only one class of securities outstanding, Common Shares, no par value per share.

Authorization of Preferred Shares

The Company's Amended and Restated Articles of Incorporation authorize the issuance of 1,000,000 shares of blank check preferred shares with such designations, rights and preferences as may be determined from time to time by the Company's Board of Directors. The Board of Directors is authorized, without shareholder approval, to issue preferred stock with dividend, liquidation, conversion, voting, or other rights, which could adversely affect the voting or other rights of the holders of the Common Shares. There were no shares of preferred stock issued or outstanding at December 31, 2014 or 2013.

Note 5 Compensation PlansEquity Incentive Plans*2014 Equity and Cash Incentive Plan*

At the Company's annual shareholder meeting on April 30, 2014, shareholders approved the 2014 Equity and Cash Incentive Plan (2014 Plan). The 2014 Plan is intended to facilitate the Company's ability to attract and retain staff, provide additional incentive to employees and directors, and promote the success of the Company's business. The 2014 Plan authorizes the issuance of 600,000 Common Shares of the Company in various forms of equity awards. The 2014 Plan also authorizes cash incentive awards. As of December 31, 2014, there were 580,050 Common Shares available for awards under the 2014 Plan. The 2014 Plan provides that the Board of Directors, or a committee appointed by the Board, may grant awards and otherwise administer the 2014 Plan. Restricted stock units and restricted stock grants issued under the 2014 Plan, which vest over time, are recorded as deferred compensation in the equity section of the



balance sheet on the grant date and then recognized as compensation expense based on the grant date price over the vesting period of the respective grant. Stock grants issued under the 2014 Plan are recorded as compensation expense based on the grant date price.

*2011 Equity and Cash Incentive Plan and 2005 Employee and Director Equity Incentive Plan*

There are no longer any Common Shares available for future issuance under either the 2011 or 2005 equity incentive plans, although outstanding grants under these plans remain issued and outstanding. Restricted stock grants issued under the 2011 and 2005 equity incentive plans, which vest over time, were recorded as deferred compensation in the equity section of the balance sheet on the grant date and then recognized as compensation expense based on the grant date price over the vesting period of the respective grant. Stock grants issued under the 2011 and 2005 equity incentive plans were recorded as compensation expense based on the grant date price.

**Table of Contents***Restricted Stock Grant Transactions*

The Company issues restricted stock units and restricted stock awards (collectively, Restricted Stock ). Restricted stock units represent shares which may be issued in the future, whereas restricted stock awards represent shares issued and outstanding upon grant with vesting restrictions. The following table represents a roll-forward of outstanding Restricted Stock and related activity during the years ended December 31, 2014 and December 31, 2013:

|  | Shares   | Weighted-Average Grant Date Price per Share |
|--|----------|---|
| Outstanding Restricted Stock as of December 31, 2012 | 319,988  | \$ 74.22                                    |
| Grants issued  | 32,000   | 85.63                                       |
| Grants vested  | (39,749) | 80.77                                       |
| Grants forfeited                                     | (140)    | 77.81                                       |
| Outstanding Restricted Stock as of December 31, 2013 | 312,099  | \$ 74.17                                    |
| Grants issued  | 60,613   | 124.05                                      |
| Grants vested  | (28,731) | 63.47                                       |
| Grants forfeited                                     | (8,213)  | 77.23                                       |
| Outstanding Restricted Stock as of December 31, 2014 | 335,768  | \$ 79.79                                    |

Total deferred compensation related to unvested Restricted Stock grants was \$12.6 million as of December 31, 2014. Compensation expense related to the restricted stock grants is calculated based upon the fair market value of the common stock on grant date adjusted for estimated forfeitures. Compensation expense recognition of deferred compensation over the remaining vesting periods, adjusted for estimated forfeitures, is as follows:

| 2015      | 2016         | 2017         | 2018         | 2019       | Total         |
|-----------|--------------|--------------|--------------|------------|---------------|
| 5,723,105 | \$ 2,708,516 | \$ 2,180,245 | \$ 1,436,301 | \$ 517,966 | \$ 12,566,133 |

*Stock Grant Transactions*

The following table represents stock grant transactions during the years ended December 31, 2014, 2013, and 2012:

|                   | Shares Issued | Grant Date Value |
|-------------------|---------------|------------------|
| December 31, 2014 | 33,745        | \$ 3,984,816     |
| December 31, 2013 | 59,006        | 4,606,008        |
| December 31, 2012 | 71,949        | 5,540,792        |

401(k) Plan

The Company sponsors a 401(k) plan in which all employees are eligible to participate. Employees may contribute a portion of their compensation subject to certain limits based on federal tax laws. The Company makes matching contributions of common shares of the Company with a value equal to 200 percent of the first six percent of an employee's compensation contributed to the plan. Employees become fully vested in the matching contributions after six plan years of employment. The following table summarizes the Company's expenses attributable to the plan during the years ended December 31, 2014, 2013 and 2012:

| For the year ended December 31, |              |              |
|---------------------------------|--------------|--------------|
| 2014                            | 2013         | 2012         |
| \$ 1,356,035                    | \$ 1,158,354 | \$ 1,057,056 |

**Table of Contents****Deferred Compensation Plans**

On April 24, 2013, the Board of Directors approved the Diamond Hill Fixed Term Deferred Compensation Plan and the Diamond Hill Variable Term Deferred Compensation Plan (collectively the Plans). Under the Plans, participants may elect to voluntarily defer, for a minimum of five years, certain incentive compensation, which the Company then contributes into the Plans. Each participant is responsible for designating investment options for assets they contribute, and the distribution paid to each participant reflects any gains or losses on the assets realized while in the Plans. Assets held in the Plans are included in the Company's investment portfolio, and the associated obligation to participants is included in deferred compensation liability. Assets held in the Plans are recorded at fair value. Deferred compensation liability was \$5.7 million, \$1.3 million and \$0 for December 31, 2014, 2013 and 2012, respectively.

**Note 6 Operating Leases**

The Company currently leases office space of approximately 36,700 square feet at three locations, which in 2015 will be expanding to 42,400 square feet of office space. The following table summarizes the total lease and operating expenses for the years ended December 31, 2014, 2013 and 2012:

| For the year ended December 31, |            |            |
|---------------------------------|------------|------------|
| 2014                            | 2013       | 2012       |
| \$ 905,061                      | \$ 730,845 | \$ 686,747 |

The approximate future minimum lease payments under the operating leases are as follows:

| Future Minimum Lease Payments by Year |            |            |            |            |            |
|---------------------------------------|------------|------------|------------|------------|------------|
| 2015                                  | 2016       | 2017       | 2018       | 2019       | Thereafter |
| \$ 697,000                            | \$ 696,000 | \$ 696,000 | \$ 632,000 | \$ 596,000 | \$ 2,000   |

The total approximate future minimum lease payments of \$6.3 million include \$0.3 million of obligations that will be reimbursed to the Company under an expense reimbursement agreement (Expense Agreement) with a third party. Under the Expense Agreement, these amounts are required to be reimbursed to the Company by the third party. The obligation of the third party to reimburse the Company for these expenses survives the termination of the Expense Agreement.

In addition to the above lease payments, the Company is also responsible for normal operating expenses of the properties. Such operating expenses were approximately \$0.3 million in 2014.

**Note 7 Income Taxes**

The Company files a consolidated federal income tax return. It is the policy of the Company to allocate the consolidated tax provision to subsidiaries as if each subsidiary's tax liability or benefit were determined on a separate company basis. As part of the consolidated group, subsidiaries transfer to the Company their current federal tax liabilities or assets.

|   |               | As of December 31, |              |  |
|---|---------------|--------------------|--------------|--|
|   | 2014          | 2013               | 2012         |  |
| Current city income tax provision             | \$ 935,612    | \$ 952,957         | \$ 406,814   |  |
| Current state income tax provision            | 429,147       | 268,920            | 122,704      |  |
| Current federal income tax provision          | 15,015,813    | 17,866,911         | 8,990,777    |  |
| Deferred federal income tax expense (benefit) | 2,404,433     | (5,611,451)        | (368,572)    |  |
| Provision for income taxes                    | \$ 18,785,005 | \$ 13,477,337      | \$ 9,151,723 |  |

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A reconciliation of income tax expense at the statutory federal rate to the Company's income tax expense is as follows:

|   | 2014          | 2013          | 2012         |
|---|---------------|---------------|--------------|
| Income tax computed at statutory rate               | \$ 17,628,078 | \$ 12,471,258 | \$ 9,128,915 |
| City and state income taxes, net of federal benefit | 887,093       | 794,220       | 344,187      |
| Other   | 269,834       | 211,859       | (321,379)    |
| Income tax expense                                  | \$ 18,785,005 | \$ 13,477,337 | \$ 9,151,723 |

In addition to the income tax expense listed above for the years ended December 31, 2014, 2013 and 2012, income tax benefit recorded in shareholders' equity for the same periods was \$1.0 million, \$0.8 million, and \$2.0 million, respectively. Included in 2012 is \$2.0 million which relates to tax benefits not previously claimed by the Company.

Deferred tax assets and liabilities consist of the following at December 31, 2014 and 2013:

|                                | 2014         | 2013         |
|--------------------------------|--------------|--------------|
| Stock-based compensation       | \$ 5,433,419 | \$ 4,433,293 |
| Accrued incentive compensation | 2,964,688    | 4,075,735    |
| Unrealized gains               | (2,436,006)  | (316,926)    |
| Other assets and liabilities   | (303,109)    | (128,677)    |
| Net deferred tax assets        | \$ 5,658,992 | \$ 8,063,425 |

The net temporary differences incurred to date will reverse in future periods as the Company generates taxable earnings. The Company believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets recorded. The Company records a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2014, no valuation allowance was deemed necessary.

FASB ASC 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company did not record an accrual for tax related uncertainties or unrecognized tax positions as of December 31, 2014. The Company does not expect a change to the reserve for uncertain tax positions within the next twelve months that would have a material impact on the consolidated financial statements.

The Company files income tax returns in the federal and all applicable state and local jurisdictions. The Company is subject to federal, state and local examinations by tax authorities for tax years ended December 31, 2009 through 2014.



**Table of Contents****Note 8 Earnings Per Share**

The Company's common shares outstanding consist of all shares issued and outstanding, including unvested restricted shares. Basic and diluted EPS are calculated under the two-class method. Pursuant to the two-class method, the Company's unvested restricted stock grants with nonforfeitable rights to dividends are considered participating securities. Dividends are paid on all common shares outstanding at the same rate. Accordingly, the Company has evaluated the impact of earnings per share of all participating securities under the two-class method, noting no impact on earnings per share. Restricted stock grants with forfeitable rights to dividends and restricted stock units are considered dilutive. The following table sets forth the computation for basic and diluted EPS and reconciliation between basic and diluted shares outstanding:

|   | Year Ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2014                    | 2013          | 2012          |
| Net income  | \$ 31,580,931           | \$ 22,154,828 | \$ 16,930,892 |
| Weighted average number of outstanding shares - Basic                           | 3,196,127               | 3,142,083     | 3,111,328     |
| Dilutive impact of restricted stock grants with forfeitable rights to dividends | 67,453                  | 52,180        |               |
| Dilutive impact of restricted stock units                                       | 2,588                   |               |               |
| Weighted average number of outstanding shares - Diluted                         | 3,266,168               | 3,194,263     | 3,111,328     |
| Earnings per share  |                         |               |               |
| Basic   | \$ 9.88                 | 7.05          | 5.44          |
| Diluted   | \$ 9.67                 | 6.94          | 5.44          |

**Note 9 Regulatory Requirements**

BHIL, a wholly owned subsidiary of the Company and principal underwriter for mutual funds, is subject to the SEC uniform net capital rule, which requires the maintenance of a specified minimum net capital. BHIL's net capital exceeded its minimum net capital requirement at December 31, 2014 and 2013. The net capital balances, minimum net capital requirements, and ratio of aggregate indebtedness to net capital for BHIL are summarized below as of December 31, 2014 and 2013:

|  | As of December 31, |            |
|--|--------------------|------------|
|  | 2014               | 2013       |
| Net Capital                                    | \$ 370,604         | \$ 338,568 |
| Minimum Net Capital Requirement                | 84,055             | 90,931     |
| Ratio of Aggregate Indebtedness to Net Capital | 3.40 to 1          | 4.03 to 1  |

**Note 10 Commitments and Contingencies**

The Company indemnifies its directors and certain of its officers and employees for certain liabilities that might arise from their performance of their duties to the Company. Additionally, in the normal course of business, the Company enters into agreements that contain a variety of representations and warranties and which provide general indemnifications. Certain agreements do not contain any limits on the Company's liability and would involve future claims that may be made against the Company that have not yet occurred. Therefore, it is not possible to estimate the



Company's potential liability under these indemnities. Further, the Company maintains insurance policies that may provide coverage against certain claims under these indemnities.

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**ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosures**

None.

**ITEM 9A. Controls and Procedures**

Management, including the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act of 1934) as of the end of the period covered by this report (the "Evaluation Date"). Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Management's Annual Report on Internal Control Over Financial Reporting**

Management of Diamond Hill Investment Group, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014.

The Company's independent registered public accounting firm, KPMG LLP, has audited the Company's 2014 and 2013 consolidated financial statements included in this Annual Report on Form 10-K and the Company's internal control over financial reporting as of December 31, 2014, and has issued its Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements, which is included in this Annual Report on Form 10-K.

**ITEM 9B. Other Information**

None.

**Table of Contents****PART III****ITEM 10. Directors, Executive Officers and Corporate Governance**

Information required by this Item 10 is incorporated herein by reference from the Company's definitive proxy statement for its 2015 annual meeting of shareholders to be filed with the SEC pursuant to Regulation 14A of the Exchange Act (the 2015 Proxy Statement), under the captions: Section 16(a) Beneficial Ownership Reporting Compliance, Proposal 1 Election of Directors, Proposal 1 Election of Directors The Board of Directors and Committees, Proposal 1 Election of Directors Corporate Governance, and Proposal 1 Election of Directors Executive Officers and Compensation Information.

**ITEM 11. Executive Compensation**

Information required by this Item 11 is incorporated herein by reference from the Company's 2015 Proxy Statement under the captions: Proposal 1 Election of Directors The Board of Directors and Committees, Proposal 1 Election of Directors Corporate Governance, Proposal 1 Election of Directors Corporate Governance Compensation Committee Interlocks and Insider Participation, Proposal 1 Election of Directors Executive Officers and Compensation Information, and Proposal 1 Election of Directors Compensation Committee Report.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth certain information concerning our equity compensation plans at December 31, 2014:

**Equity Compensation Plan Information**

|  | (a)   | (b)   | (c)   |
|--|---|---|---|
| Plan category  | Number of securities to be issued upon the exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
| Equity compensation plans approved by security holders |   | \$  | 580,050 <sup>1</sup>  |

<sup>1</sup> This amount relates to common shares that may be issued under our 2014 Equity and Cash Incentive Plan. The other information required by this Item 12 is incorporated herein by reference from the Company's 2015 Proxy Statement under the captions: Security Ownership of Certain Beneficial Owners and Management and Proposal 1

Election of Directors    Executive Officers and Compensation Information .

**ITEM 13.    Certain Relationships and Related Transactions, and Director Independence**

Information required by this Item 13 is incorporated herein by reference from the Company's 2015 Proxy Statement under the caption: Proposal 1 Election of Directors Director Independence and Proposal 1 Election of Directors Corporate Governance .

**ITEM 14.    Principal Accounting Fees and Services**

Information required by this Item 14 is incorporated herein by reference from the Company's 2015 Proxy Statement under the caption: Proposal 2 Ratification of the Appointment of Independent Registered Public Accounting Firm .

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**PART IV**

**ITEM 15. Exhibits, Financial Statement Schedules**

- (a) (1) **Financial Statements**: See Part II. Item 8, Financial Statements and Supplementary Data .
- (2) **Financial Statement Schedules**: All financial statement schedules for which provision is made in the applicable accounting regulations of the SEC are omitted because they are not required or the required information is included in the accompanying financial statements or notes thereto.
- (3) **Exhibits**:
- 3.1 Amended and Restated Articles of Incorporation of the Company. (Incorporated by reference from Exhibit 3(i) to the Current Report on Form 8-K filed with the SEC on May 7, 2002; File No. 000-24498.)
- 3.2 Regulations of the Company. (Incorporated by reference from Exhibit 4.2 to the Registration Statement on Form S-8 filed with the SEC on June 27, 2014; File No. 333-197064.)
- 10.1 Amended and Restated Investment Management Agreement between Diamond Hill Capital Management, Inc. and the Diamond Hill Funds dated November 17, 2011, as amended November 21, 2013. (Incorporated by reference from Exhibit 28(d)((i)(ii)) to Post-Effective Amendment Nos. 45 and 46 to Registration Statement on Form N1-A (File Nos. 333-22075 and 811-08061) filed by Diamond Hill Funds on February 27, 2015)
- 10.2 Amended and Restated Administrative and Transfer Agency Services Agreement dated as of May 31, 2002, as amended January 1, 2015, between Diamond Hill Capital Management, Inc. and the Diamond Hill Funds. (Incorporated by reference from Exhibit 28h((i)(ii)(iii)(iv)) to Post-Effective Amendment Nos. 45 and 46 to Registration Statement on Form N1-A (File Nos. 333-22075 and 811-08061) filed by Diamond Hill Funds on February 27, 2015)
- 10.3\* 2014 Equity and Cash Incentive Plan. (Incorporated by reference from Exhibit 10.1 to the Registration Statement on Form S-8 filed with the SEC on June 27, 2014; File No 333-197064.)
- 10.4\* 2011 Equity and Cash Incentive Plan and Form of Restricted Stock Award Agreement referenced therein. (Incorporated by reference from Exhibit 10.2 and 10.3 to the Current Report on Form 8-K filed with the SEC on April 29, 2011; File No. 000-24498.)
- 10.5\* Amended and Restated Employment Agreement between the Company and Roderick H. Dillon, Jr. dated March 22, 2011. (Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on March 24, 2011; File No. 000-24498.)
- 10.6\* Amended and Restated 2005 Employee and Director Equity Incentive Plan. (Incorporated by reference from Exhibit 10.6 to the Annual Report on Form 10-K filed with the SEC on March 14, 2008; File No. 000-24498.)
- 10.7\* 2005 Employee and Director Equity Incentive Plan First Amendment dated November 2, 2010 and Form of Restricted Stock Agreement reference therein. (Incorporated by reference from Exhibit 10.4 to the Annual Report on Form 10-K filed with the SEC on February 25, 2011; File No. 000-24498.)
- 10.8\*

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Diamond Hill Investment Group, Inc. Compensation Recoupment and Restitution Policy. (Incorporated by reference from Exhibit 99 to the Current Report on Form 8-K filed with the SEC on February 20, 2013; File No. 000-24498.)

- 10.9\* Diamond Hill Investment Group, Inc. Compensation Recoupment and Restitution Policy Acknowledgement and Agreement. (Incorporated by reference from Exhibit 99.1 to the Current Report on Form 8-K filed with the SEC on February 20, 2013; File No. 000-24498.)
- 10.10\* Diamond Hill Fixed Term Deferred Compensation Plan. (Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on April 30, 2013; File No. 000-24498.)
- 10.11\* Diamond Hill Variable Term Deferred Compensation Plan. (Incorporated by reference from Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on April 30, 2013; File No. 000-24498.)
- 10.12\* First Amendment to the Diamond Hill Fixed Term Deferred Compensation Plan. (Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on May 28, 2013; File No. 000-24498.)
- 10.13\* First Amendment to the Diamond Hill Variable Term Deferred Compensation Plan. (Incorporated by reference from Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on May 28, 2013; File No. 000-24498.)

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- 10.14\* Loan Agreement by and between Diamond Hill Capital Management, Inc., Diamond Hill Investment Group, Inc. and The Huntington National Bank dated November 8, 2013. (Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on November 14, 2013; File No. 000-24498.)
- 10.15\* Line of Credit Demand Note with Diamond Hill Capital Management, Inc., Diamond Hill Investment Group, Inc. and The Huntington National Bank dated November 8, 2013. (Incorporated by reference from Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on November 14, 2013; File No. 000-24498.)
- 14.1 Amended Code of Business Conduct and Ethics. (Incorporated by reference from Exhibit 14.1 to the Annual Report on Form 10-K filed with the SEC on March 7, 2014; File No. 000-24498.)
- 21.1 Subsidiaries of the Company. (Filed herewith)
- 23.1 Consent of Independent Registered Public Accounting Firm, KPMG LLP. (Filed herewith)
- 31.1 Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a). (Filed herewith)
- 31.2 Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a). (Filed herewith)
- 32.1 Section 1350 Certifications. (Furnished herewith)
- 101.ins XBRL Instance Document.
- 101.sch XBRL Taxonomy Extension Schema Document.
- 101.cal XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.def XBRL Taxonomy Extension Definition Linkbase Document.
- 101.lab XBRL Taxonomy Extension Label Linkbase Document.
- 101.pre XBRL Taxonomy Extension Presentation Linkbase Document.
- \* Denotes management contract or compensatory plan or arrangement.
- (b) Exhibits: Reference is made to Item 15(a)(3) above.
- (c) Financial Statement Schedules: None required.



**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

DIAMOND HILL INVESTMENT GROUP, INC.

By: /s/ R. H. Dillon

R. H. Dillon, Chief Executive Officer and a Director

February 27, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature                                       | Title                                     | Date              |
|---|---|-------------------|
| /s/ R. H. Dillon<br>R. H. Dillon                | Chief Executive Officer<br>and a Director | February 27, 2015 |
| /s/ Thomas E. Line<br>Thomas E. Line            | Chief Financial Officer                   | February 27, 2015 |
| /s/ Gary R. Young<br>Gary R. Young              | Controller                                | February 27, 2015 |
| /s/ James F. Laird<br>James F. Laird            | Director                                  | February 27, 2015 |
| Randolph J. Fortener*<br>Randolph J. Fortener   | Director                                  | February 27, 2015 |
| Donald B. Shackelford*<br>Donald B. Shackelford | Director                                  | February 27, 2015 |
| Bradley C. Shoup*<br>Bradley C. Shoup           | Director                                  | February 27, 2015 |
| Frances A. Skinner*<br>Frances A. Skinner       | Director                                  | February 27, 2015 |

\* By /s/ Gary R. Young  
Gary R. Young  
Executed by Gary R. Young  
on behalf of those indicated pursuant to Powers of  
Attorney



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INVESTOR  
INFORMATION

**CORPORATE HEADQUARTERS**

Diamond Hill Investment Group, Inc.  
325 John H. McConnell Blvd., Suite 200  
Columbus, OH 43215  
614.255.3333  
info@diamond-hill.com

www.diamond-hill.com

**STOCK LISTING**

Diamond Hill Investment Group, Inc. is listed  
on the NASDAQ Global Select Market  
Ticker Symbol: **DHIL**

**SHAREHOLDER INFORMATION**

The Transfer Agent for Diamond Hill is  
Continental Stock Transfer & Trust Company.  
Shareholders who wish to transfer their stock or  
change the name in which the shares are  
registered should contact:  
Continental Stock Transfer & Trust Co.  
17 Battery Place  
New York, NY 10004  
212.509.4000

**LEGAL COUNSEL**

Vorys, Sater, Seymour and Pease LLP  
Columbus, OH

**INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

KPMG LLP  
Columbus, OH

**FORM 10-K AND OTHER FINANCIAL REPORTS**

The Company's Annual Report on Form 10-K, as

filed with the U.S. Securities and Exchange Commission,  
which includes the complete financial statements of the  
company, has been included with the proxy materials mailed to  
each shareholder.

Additional copies are available without charge by contacting  
the Company at:

325 John H. McConnell Blvd., Suite 200

Columbus, OH 43215

614.255.3333

info@diamond-hill.com

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[www.diamond-hill.com](http://www.diamond-hill.com)

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