

DIAMOND HILL INVESTMENT GROUP INC

Form DEF 14A

March 14, 2011

Table of Contents

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Diamond Hill Investment Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other than the Registrant)

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1) Title of each class of securities to which transaction applies:

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1) Amount Previously Paid:

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3) Filing Party:

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Table of Contents

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

March 14, 2011

Dear Shareholders:

We cordially invite you to attend the 2011 Annual Meeting of Shareholders of Diamond Hill Investment Group, Inc. (the Company), to be held at 325 John H. McConnell Blvd., Columbus, Ohio 43215, on Tuesday April 26, 2011, at 12:00 p.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 the operations of the Company and directors and officers of the Company 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 meeting. Your vote is important, regardless of the number of shares you own.

Sincerely,

R. H. Dillon
President and CEO

Table of Contents

**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 26, 2011**

Notice is hereby given that the 2011 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 Tuesday, April 26, 2011, at 12:00 p.m. Eastern Daylight Saving Time to consider and act upon the following matters:

- 1) To elect seven directors to serve on the Company s Board of Directors;
- 2) To ratify the appointment of Plante & Moran PLLC as the Company s independent registered public accounting firm for 2011;
- 3) To approve and adopt the Company s 2011 Equity and Cash Incentive Plan;
- 4) To hold an advisory vote on the compensation of the Company s executive officers;
- 5) To hold an advisory vote on the frequency of advisory votes on the compensation of the Company s executive officers; and
- 6) To transact 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 1, 2011, as the record date for determination of the shareholders entitled to vote at the Annual Meeting and any adjournments thereof. You are requested to complete, sign and date the enclosed form of proxy, which is solicited by the Company s Board of Directors, and to mail it promptly in the enclosed envelope. Alternatively, you may vote by phone by using the control number identified on your proxy 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.

THE PROMPT RETURN OF 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 14, 2011

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 26, 2011:

The Proxy Statement and the Company's 2010 Annual Report to Shareholders are available without charge at the following location:

<http://www.diamond-hill.com/pdf/imr/proxy-annual-report-final-print.pdf>

Table of Contents

**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 26, 2011**

This Proxy Statement is being furnished to the shareholders of Diamond Hill Investment Group, Inc., an Ohio corporation (the **Company**), in connection with the solicitation of proxies by the Board of Directors (the **Board**) for use at the **Company's** 2011 Annual Meeting of Shareholders (the **Annual Meeting**) to be held on April 26, 2011, 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 14, 2011. Only shareholders of record at the close of business on March 1, 2011, 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 seven directors for one-year terms each;
- 2) To ratify the appointment of Plante & Moran PLLC (**Plante & Moran**) as our independent registered public accounting firm for 2011;
- 3) To approve and adopt the **Company's** 2011 Equity and Cash Incentive Plan (the **2011 Incentive Plan**);
- 4) To hold an advisory vote on the compensation of the **Company's** executive officers;
- 5) To hold an advisory vote on the frequency of advisory votes on the compensation of the **Company's** executive officers; and
- 6) 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 or (ii) properly authenticated voting instructions recorded electronically over the Internet or by telephone that are received prior to the Annual Meeting and 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 your 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 26, 2011:**

The Proxy Statement and the **Company's 2010 Annual Report to Shareholders are available without charge at the following location:**

<http://www.diamond-hill.com/pdf/imr/proxy-annual-report-final-print.pdf>

TABLE OF CONTENTS

Section	Page
<u>Questions and Answers About the Annual Meeting and Voting</u>	3
<u>The Annual Meeting</u>	4
<u>Procedural Matters</u>	5
<u>Security Ownership of Certain Beneficial Owners and Management</u>	7
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	8
<u>Proposal 1 Election of Directors</u>	8
<u>Director Independence</u>	8
<u>The Nominees</u>	8
<u>The Board of Directors and Committees</u>	11
<u>Compensation of Directors</u>	12
<u>Nominations and Corporate Governance</u>	13
<u>Executive Officers and Compensation Information</u>	15
<u>Compensation Discussion and Analysis</u>	15
<u>Stock Ownership Guidelines</u>	20
<u>Summary Compensation Table</u>	21
<u>2010 Grants of Plan-Based Awards</u>	22
<u>Outstanding Equity Awards at December 31, 2010</u>	22
<u>2010 Option Exercises and Stock Vested</u>	23
<u>Report of the Compensation Committee</u>	24
<u>Proposal 2 Ratification of the Appointment of Independent Registered Public Accounting Firm</u>	25
<u>Proposal 3 Approval of 2011 Equity and Cash Incentive Plan</u>	26
<u>Proposal 4 Advisory Vote on the Compensation of the Company's Executive Officers</u>	33
<u>Proposal 5 Advisory Vote on the Frequency of Advisory Votes on the Compensation of the Company's Executive Officers</u>	34
<u>Additional Information</u>	34
<u>Shareholder Communications with the Board of Directors</u>	34
<u>Shareholder Proposals for the 2012 Annual Meeting</u>	34
<u>Shareholders Sharing the Same Address</u>	35
<u>Other Business</u>	35
<u>Appendix A 2011 Equity and Cash Incentive Plan</u>	A-1

Table of Contents

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 Tuesday April 26, 2011, at 12:00 p.m. Eastern Daylight Saving Time. You may also listen live to the Annual Meeting via audio conference by calling 800-774-6070 [use confirmation code 9811815# when prompted] and you can view presentation materials in the News and Updates section of the Company's website, <http://www.diamond-hill.com>.

Q: What may I vote on?

A: At the Annual Meeting, you will be asked to consider and vote upon the: (i) election of seven directors to the Board; (ii) ratification of the appointment of Plante & Moran as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2011; (iii) approval of the 2011 Incentive Plan; (iv) approval, on an advisory basis, of the compensation of the Company's executive officers; and (v) selection, on an advisory basis, of the frequency of shareholder advisory votes on the compensation of the company's 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 promptly in the enclosed envelope. Alternatively, you may vote by phone by using the control number identified on your proxy, or vote electronically over the Internet in accordance with the instructions on your proxy. The deadline for transmitting voting instructions electronically over the Internet or telephonically is 11:59 p.m. Eastern Daylight Saving Time on April 25, 2011. 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 differently and are 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 stockbroker, 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 the Company's 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 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 provided to you by your broker. 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 Plante &

Table of Contents

Moran as our independent registered public accounting firm for the 2011 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:

send a written statement to 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 Savings Time on April 25, 2011; 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 telephonic 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.

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 matters presented as recommended by your 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 James F. Laird, the Company's Secretary, at (614) 255-3353. If you are a beneficial owner, you should contact your broker or other nominee to determine the procedures you must follow.

THE ANNUAL MEETING

The Annual Meeting will be held at 325 John H. McConnell Blvd., Columbus, Ohio 43215, on Tuesday, April 26, 2011, at 12:00 p.m. Eastern Daylight Saving Time. The purposes of the Annual Meeting are (i) to elect seven directors to serve for one-year terms; (ii) to ratify the appointment of Plante & Moran as the Company's independent registered public accounting firm; (iii) to approve and adopt the Company's 2011 Equity and Cash Incentive Plan, (iv) to approve, on a non-binding advisory basis, the Company's Named Executive Officer compensation, and (v) to approve, on a non-binding advisory basis, the frequency of shareholder advisory votes on the Company's Named Executive Officer compensation. The Company is currently not aware of any other matters that will come before the Annual Meeting.

Table of Contents

PROCEDURAL MATTERS

Record Date

Only shareholders of record at the close of business on March 1, 2011, the record date for the Annual Meeting, will be entitled to vote at the Annual Meeting. As of the record date, there were 2,902,253 of 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 without voting instructions, it will be voted as recommended by your 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, the Board encourages 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 (seven), 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 seven director nominees as possible. Cumulative voting only applies to the election of directors. On any other matter each share has one vote.

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

Ratification of selection of independent registered public accounting firm. The affirmative vote of a majority of the shares represented at the Annual Meeting, in person or by proxy, and entitled to vote on the proposal is required to ratify the selection of Plante & Moran as the Company's independent registered public accounting firm for fiscal 2011.

Approval of the Company's 2011 Equity and Cash Incentive Plan. The affirmative vote of holders of a majority of the shares represented at the Annual Meeting, in person or by proxy, and entitled to vote on the proposal is required to approve the 2011 Equity and Cash Incentive Plan.

Advisory approval of named executive officer compensation. The affirmative vote of a majority of the shares represented 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.

Recommendation of frequency of shareholder votes on named executive officer compensation. Shareholders may vote in favor of holding the vote on named executive officer compensation every year, every two years or every three years, or they may abstain. Although the frequency receiving the affirmative vote of the holders of a plurality of the shares present, in person or by proxy, and entitled to vote would be deemed the shareholder recommendation, the Board will take the results of the voting into account in determining how frequently to hold shareholder advisory votes on named executive officer compensation.

Effect of broker non-votes and abstentions. Brokers who hold common shares in street name may, 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, sign and submit proxies for common shares

Table of Contents

of the Company and may vote such common shares on certain routine matters. The ratification of Plante & Moran is considered to be routine. Brokers may not vote common shares on other matters without specific instruction 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 or on the approval of the 2011 Equity and Cash Incentive Plan. In addition, SEC regulations prohibit brokers from voting without customer instruction on the approval of named executive officer compensation and on the frequency of shareholder votes on named executive officer compensation. Neither broker non-votes nor abstentions will have any effect on the election of directors or the recommendation of a frequency for the advisory vote on executive compensation. Abstentions will have the same effect as a vote against the ratification of the selection of independent registered public accounting firm, the 2011 Equity and Cash Incentive Plan and the advisory approval of named executive officer compensation; however, broker non-votes will have no effect on those proposals.

Quorum

The Company can conduct business 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. In the event that 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

The Company 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. The Company 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. Company officers, directors and employees may also assist with solicitation and will receive no additional compensation for their services.

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

The Company's Annual Report on Form 10-K for the year ended December 31, 2010, including audited consolidated financial statements, accompanies this Proxy Statement but is not a part of the proxy solicitation material. The Company is delivering a single copy of this Proxy Statement and the Form 10-K to multiple shareholders sharing an address unless the Company has received instructions from one or more of the shareholders to the contrary. The Company 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/pdf/imr.proxy-annual-report-final-print.pdf>.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth beneficial ownership of our common shares as of the record date, March 1, 2011, by (a) all persons known by the Company to own beneficially five percent or more of the outstanding shares, (b) each director and director nominee, (c) the Chief Executive Officer and Chief Financial Officer (each, a Named Executive Officer), and (d) all executive officers and directors as a group. Although not required, the Company has also decided to voluntarily disclose all common shares beneficially owned by all other employees of the Company excluding the Named 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.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Lawrence E. Baumgartner	1,964	*
R. H. Dillon	205,994(2)	7.1%
James F. Laird	72,474(2)	2.5%
David P. Lauer	5,985	*
David R. Meuse	31,505	1.1%
Peter J. Moran	6,800	*
Diane D. Reynolds	3,215	*
Donald B. Shackelford	7,505	*
Frances A. Skinner	735	*
Directors, nominees, and executive officers as a group (9 persons)	336,177	11.6%
All other employees of the Company (74 persons)(3)	549,066(4)	18.9%
5% Beneficial Owners		
Wells Fargo & Company(5) One North Jefferson Avenue St. Louis, MO 63103	218,117	7.5%
BlackRock, Inc.(6) 40 East 52nd Street New York, NY 10022	154,027	5.3%

- (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 which are issued and outstanding as of March 1, 2011 (2,902,253 shares).
- (2) Includes 1,798 shares for Mr. Dillon and 2,479 shares for Mr. Laird, which are 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.
- (3) Includes all employees of Diamond Hill Investment Group, Inc. and its subsidiaries as of March 1, 2011, excluding the executive officers named in the table above. 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.

- (4) Includes 58,152 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.
- (5) Based on information contained in a Schedule 13G/A filed with the Securities and Exchange Commission (SEC) on January 20, 2011, by Wells Fargo & Company. In this Schedule 13G/A, Wells Fargo & Company reported sole voting power and sole dispositive power over 218,117 shares, and Wells Fargo Advisors Financial Network, LLC reported sole voting power and sole dispositive power over 212,852 shares.
- (6) Based on information contained in a Schedule 13G filed with the SEC on February 4, 2011, by BlackRock, Inc. In this Schedule 13G, BlackRock, Inc. reported sole voting power and sole dispositive power over 154,027 shares on behalf of the following subsidiaries: BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Advisors, LLC, and BlackRock Investment Management, LLC.

Table of Contents

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, to file with the Securities and Exchange Commission (SEC) initial reports of ownership on Form 3 and reports of changes in ownership on Form 4 and Form 5. Executive officers, directors and persons who beneficially own more than ten percent of the Company's securities 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 by these persons and statements made by these persons that no other Section 16(a) reports were required to be filed by them, each director, other than Mr. Dillon, filed one late Form 4. All of the late filings related to a stock grant received by the non-employee directors on March 15, 2010, and each of the non-employee directors disclosed the grant on a Form 5 filed on January 5, 2011. To the Company's knowledge, there were no other late or unfiled reports during the year ended December 31, 2010.

PROPOSAL 1 ELECTION OF DIRECTORS

The Board guides the strategic direction of the Company and oversees its management. All of the Company's directors are elected annually. Pursuant to the recommendation of the Nominating and Governance Committee, the Board has nominated the seven nominees listed below, five of whom are incumbents. All have been nominated by the Board to hold office until the next annual meeting of shareholders and until their respective successors are elected and qualified.

David R. Meuse and Diane D. Reynolds, who have served as directors of the Company since 2000 and 2001, respectively, will be retiring from the Board at the Annual Meeting and will not stand for reelection. The Board, upon recommendation of the Nominating and Governance Committee, has nominated Mr. James F. Laird and Mr. Peter J. Moran for election to the seats being vacated by Mr. Meuse and Ms. Reynolds. The Board would like to thank Mr. Meuse and Ms. Reynolds for their dedicated service to the Company. Mr. Laird has been CFO of the Company since 2001 was recommended for nomination by the CEO and the Chairman. Mr. Moran was recommended for nomination by the CEO and CFO who have known Mr. Moran for approximately six years and were impressed with his experience and knowledge of the investment management industry.

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 director nominee Mr. Laird, all of the current directors and director nominee Mr. Moran 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 the directors and executive officers of the Company.

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 which 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 of the Company, 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.

Lawrence E. Baumgartner, CFA, age 52, has been an independent director of the Company since 2008, and serves on the Compensation Committee and Nominating and Governance Committee. Mr. Baumgartner has been a private investor since 2004. He was employed by Banc One Investment Advisors from 1999 to 2004 most recently serving as Chief Investment Officer of equity securities from 2003 to 2004, where he was responsible for overseeing the management of over \$37 billion in assets. He has over 25 years of investment management experience.

Table of Contents

Mr. Baumgartner also serves on the Investment Committee of the Columbus Foundation and the Columbus Zoo and Aquarium Endowment.

Mr. Baumgartner received his BS in Business Administration from The Ohio State University and his MBA from Ohio University. Mr. Baumgartner also holds the Chartered Financial Analyst designation.

The Board believes that Mr. Baumgartner's qualifications to serve on the Board include his substantial experience in investment management, including his experience as a chief investment officer of a large investment management firm.

R. H. Dillon, CFA, age 54, has been a director of the Company since 2001, and the President, CEO, and Chief Investment Officer 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 10 years of experience as CEO and Chief Investment Officer with the Company, his in depth knowledge and involvement in the Company's operations and his more than 30 years of experience as an investment professional.

James F. Laird, CPA, age 54, is a nominee for election as a director of the Company and has been the Chief Financial Officer of the Company and President of Diamond Hill Funds since 2001. Prior to joining the firm in 2001, Mr. Laird had been 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 24 years of experience in the investment management industry.

Mr. Laird also serves on the board of Ohio Dominican University and is chairman of the Audit Committee.

Mr. Laird received his BS in Accounting from The Ohio State University, is a Certified Public Accountant, and holds the following FINRA securities licenses: Series 7, 24, and 63.

The Board believes that Mr. Laird's qualifications to serve on the Board include his 10 years of experience as CFO with the Company, his in depth knowledge and involvement in the Company's operations and his more than 24 years of experience in the financial, operational, administrative, and distribution aspects of the investment management industry.

David P. Lauer, CPA, age 68, has been an independent director of the Company since 2002, and is the chairman of the Audit Committee. Mr. Lauer retired from Bank One, Columbus in 2001, where he had served as President and Chief Operating Officer from 1997 to 2001. Mr. Lauer is also a retired partner of Deloitte & Touche LLP, an international accounting and consulting firm, where he was Managing Partner of the Columbus Ohio office from 1989 to 1997. Mr. Lauer has over 40 years of experience in accounting and financial matters.

Mr. Lauer is a director of Huntington Bancshares, a multi-state diversified financial holding company, and serves as chairman of the Audit Committee and member of the Capital Planning Committee. He is also a director of R.G. Barry Corporation, a retail developer and marketer of accessory footwear, where he serves on the Audit, Compensation, and Nominating and Governance Committees. Mr. Lauer also serves on the board of W. W. Williams Company, Evans Corporation, and On-Line Computer Library Center, Inc, all of which are private or non-for-profit organizations.

Mr. Lauer also served as a director of Wendy's International from 2000 to 2008 and Tim Horton's Inc. from 2006 to 2007.

Mr. Lauer has an undergraduate degree from Capital University and a masters in accountancy from Ohio University. Mr. Lauer is also a Certified Public Accountant.

The Board believes that Mr. Lauer'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, his prior role as President and Chief Operating Officer of Bank One-Columbus, and his experience as a director of other public companies.

Table of Contents

Peter J. Moran, age 50, is a nominee for election as an independent director of the Company. Mr. Moran has been a managing partner with DundeeWealth US, LP, an institutional investment management firm, and President of DundeeWealth Funds, since 2008. Prior to joining DundeeWealth US, LP, he was a founder and managing partner with BHR Fund Advisors, LP from 2006 until its acquisition by DundeeWealth in 2008. From 2005 to 2006 he was President of Constellation Funds Group, LP. Prior to Constellation, he was employed at Turner Investment Partners as Managing Director of mutual fund, investment-only defined contribution and sub-advisory distribution. He has held several senior positions with leading investment management firms including J.P. Morgan Investment Management, Montgomery Asset Management and PIMCO/Pacific Life. Mr. Moran has over 25 years of experience in the investment management industry.

Mr. Moran received his BA in Economics from University of Richmond. Mr. Moran also holds the Chartered Financial Consultant and Chartered Life Underwriter designations and is a member of the Executive Committee of the Mutual Fund Education Alliance.

The Board believes that Mr. Moran's qualifications to serve on the Board include his significant experience in the global investment management industry, including specific experience in the sales and distribution of investment management products.

Donald B. Shackelford, age 78, has been an independent director of the Company since 2005, is the chairman of the Compensation Committee, and serves on the Nominating and Governance Committee. Mr. Shackelford retired from Fifth Third Bank, Central Ohio (successor to State Savings Bank) in 2008, where he had served as Chairman from 1998 to 2008. Prior to joining Fifth Third Bank, Mr. Shackelford served as Chairman and CEO of State Savings Bank for 25 years, until its acquisition by Fifth Third Bank in 1998.

Mr. Shackelford served as a director of The Progressive Corporation, a national property and casualty insurance company from 1976 to 2010. Mr. Shackelford also serves on the board of Heads & Threads International, LLC, and Lowell Group, all of which are private or non-for-profit organizations. Mr. Shackelford also served as a director of Limited Brands, Inc. from 1976 to 2005.

Mr. Shackelford received his BA from Denison University and his MBA from Harvard Business School.

The Board believes that Mr. Shackelford's qualifications to serve on the Board include his substantial experience in banking and financial services and his experience as a director of another public company.

Frances A. Skinner, CFA, CPA, age 46, has been an independent director of the Company since 2010, and serves on the Audit Committee and Compensation 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 24 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.

The Board believes that 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 LAWRENCE E. BAUMGARTNER, R. H. DILLON, JAMES F. LAIRD, DAVID P. LAUER, PETER J. MORAN, DONALD B. SHACKELFORD, AND FRANCES A. SKINNER AS DIRECTORS OF THE COMPANY.

Table of Contents

THE BOARD OF DIRECTORS AND COMMITTEES

The Board held a total of five meetings during the year ended December 31, 2010. Each director attended 100% of the combined total number of meetings of the Board and Board committees of which he or she was a member. Consistent with the Company's Corporate Governance Guidelines, the independent directors met in executive session at all five of the Board meetings in 2010. 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 2010 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 Web site, www.diamond-hill.com, by clicking the Investor & Media Relations tab followed by the Investor Relations tab.

Pursuant to rules promulgated under the Sarbanes-Oxley Act, 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.

The Company also has a Code of Business Conduct and Ethics that is applicable to all of our employees and directors, a copy of which is filed as an exhibit to our Form 10-K filed with the SEC. It is the Company's policy to require all employees to participate annually in continuing education and training relating to the Code of Business Conduct and Ethics.

Audit Committee

Mr. Lauer, Ms. Reynolds and Ms. Skinner serve on the Audit Committee, which met four times during 2010. The Board has determined that each Committee member meets the independence and financial literacy rules and standards of the SEC and NASDAQ. The Board also has concluded that Mr. Lauer, the Chairman of the Audit Committee, and Ms. Skinner meet 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 situations 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 REPORT OF THE AUDIT COMMITTEE.

Compensation Committee

Mr. Baumgartner, Mr. Shackelford and Ms. Skinner serve on the Compensation Committee, which met four times during 2010. Mr. Shackelford serves as the Chairman of the Compensation Committee. The Board of Directors has determined that each of these members meets the independence criteria of NASDAQ. No member of the

Compensation Committee is or has been an officer or employee of the Company or has had any relationship requiring disclosure by us under Item 404 of SEC Regulation S-K. In addition, no member of the Compensation Committee or Board is employed by a company whose board of directors includes a member of our management.

The primary purpose of the Compensation Committee is to review and approve the Company's executive compensation policies, evaluate the performance of the Company's 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

Table of Contents

member/chair compensation for non-employee directors. The Compensation Committee also administers the Company's equity and other incentive plans. 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

Messrs. Baumgartner, Meuse and Shackelford serve on the Nominating and Governance Committee, which met four times during 2010. Mr. Meuse serves as the chairman. The Board has determined that all committee members meet 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. In addition, they are responsible for monitoring compliance with and recommending any changes to the company's Corporate Governance Guidelines. Additional information regarding the committee's activities appears under the heading "Nominations and Corporate Governance."

Compensation of Directors

The Compensation Committee is responsible for periodically reviewing and recommending to the Board the compensation of independent directors. The following table sets forth information regarding the compensation earned by, or paid to, directors who served on our Board in 2010. Mr. Dillon, who is also President and CEO, does not receive separate directors' fees for his service and has been omitted from this table.

2010 Director Compensation(1)

Name	Fees Earned or Paid in Cash	Stock Awards(2)	Total
Lawrence E. Baumgartner	\$ 17,000	\$ 30,000	\$ 47,000
David P. Lauer	\$ 19,000	\$ 30,000	\$ 49,000
David R. Meuse	\$ 29,000	\$ 30,000	\$ 59,000
Diane D. Reynolds	\$ 16,000	\$ 30,000	\$ 46,000
Donald B. Shackelford	\$ 22,000	\$ 30,000	\$ 52,000
Frances A. Skinner(3)	\$ 9,000	\$ 15,000	\$ 24,000
Dr. James Mathias(4)	\$ 6,000	\$ 15,000	\$ 21,000

(1) Includes only those columns relating to compensation awarded to, earned by, or paid to non-employee directors for their services in 2010. All other columns have been omitted.

(2) Represents the full grant-date fair value computed by multiplying the total shares granted by the closing price of the shares on the grant date. All shares were fully vested on the grant date, and therefore, this amount also reflects the expense incurred and recognized in the Company's financial statements. On March 15, 2010, each

director received a grant of 428 shares for service as a non-employee director, which had a value of \$30,000 based on the market price of the shares on that date. These shares were granted under the 2005 Employee and Director Equity Incentive Plan. For information on the expensing of these awards, please see note 5 to the consolidated financial statements contained in the Company's Form 10-K for the year ended December 31, 2010.

- (3) Ms. Skinner was elected to the Board at the Annual Meeting on May 4, 2010. Her compensation represents service after her election to the Board.

Table of Contents

- (4) Dr. James Mathias did not stand for re-election to the Board at the Annual Shareholder meeting on May 4, 2010. His compensation represents his service prior to the 2010 Annual Meeting.

Fees and Other Compensation

Non-employee directors receive the following:

An annual retainer of \$30,000, paid in Company shares;

An annual retainer of \$10,000 for the chairman of the Board

An annual retainer of \$5,000 for the chairs of each Committee;

A fee of \$2,000 for each board meeting attended;

A fee of \$1,000 for each committee meeting attended; and

Ownership and Retention Guidelines

Effective February 25, 2010, each non-employee director is required to hold and retain 100% of the shares of our common stock, granted to them for as compensation, for his or her entire term of service on the Board. They may not sell any of the shares granted to them until they conclude their service as a director.

NOMINATIONS AND 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 governance matters for the Company. The Committee adopted Corporate Governance Guidelines on February 25, 2010.

Board Leadership and Composition

We believe separating the roles of Chairman and CEO provides for a strong governance and oversight structure. David Meuse has served as independent non-executive chairman since 2001 and R. H. Dillon has served as CEO since joining the firm in 2000. The Chairman approves Board agendas and schedules, chairs all executive sessions of the independent directors, acts as 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 independent directors.

Currently six of the seven members of the Board are independent under NASDAQ standards. If Mr. Laird is elected, the Board will have five independent directors. In addition, the Nominating and Governance Committee, the Audit Committee, and the Compensation Committee are all comprised entirely of independent directors. Overall, the Company believes that the Board structure is designed to foster critical oversight, good governance practices, and the interests of the Company and its shareholders.

Board's Role in Risk Oversight

The Board's role in the Company's risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Company, including client investment performance, operational,

financial, legal and regulatory, and strategic risks. The Audit Committee is responsible for overseeing risks relating to the Company's accounting matters, financial reporting and legal and regulatory compliance. To satisfy these oversight responsibilities, the Audit Committee meets regularly with management and Plante & Moran. The Compensation Committee is responsible for overseeing risks relating to employment policies and the Company's 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 the Company's compensation policies pose to the Company's finances and its relationship with employees.

Table of Contents

Planning Group

During 2009 the Company formed the Planning Group, which is comprised of seven associates representing all functional areas of the organization. The Planning Group was formed to provide additional depth and expertise. The Planning Group collaborates and recommends action on various company initiatives and the overall direction of the firm. The Planning Group is comprised of the following individuals: Chris Bingaman portfolio management, Chris Welch portfolio management, Bill Zox portfolio management, Rick Snowdon investment research, Laurie Riebel client management, James Bishop business development, and Gary Young business management. Ric Dillon and Jim Laird intend to continue as CEO and CFO, respectively, for the next five years. During that time it is likely that their duties will be shared among the members of the Planning Group. The Company believes that the Planning Group in conjunction with the CEO and CFO is an appropriate and effective organizational structure for Diamond Hill.

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 the operations and the financial condition of the Company. 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, the Company 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 renomination each year. In considering diversity, the Nominating and Corporate Governance Committee considers diversity of background and experience as well as gender and other forms of diversity. The Company does not, however, have any formal policy regarding diversity in identifying nominees for a directorship, but rather it considers it among the various factors relevant to any particular nominee. In the event that a vacancy exists or it decides to increase the size of the Board, the Nominating and Corporate Governance Committee identifies, interviews and examines, and make recommendations to the Board regarding, appropriate candidates.

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

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.

Table of Contents

In addition, candidates expected to serve on the Audit Committee must meet independence and financial literacy qualifications imposed by NASDAQ and by the SEC and other applicable law. Candidates expected to serve on the Nominating and Governance Committee or the Compensation Committee must meet independence qualifications set out by NASDAQ, and members of the Compensation Committee may also be required to meet additional independence tests. 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 shareholders. All directors serve for one-year terms and must stand for re-election annually.

The Board does not currently have any specific policies regarding the consideration of director candidates recommended by shareholders and will consider shareholder recommendations for directors using the process and criteria set forth above. The Nominating and Governance Committee will direct the Company's director nomination process. Further, the Nominating and Governance Committee may, in its discretion, adopt policies in the future 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. The Company currently has no related person transactions reportable pursuant to Item 404(a) of SEC Regulation S-K, and has not had any such transactions in the recent past. As such, the Company does 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 2010. For any related person transaction to be consummated or to continue, the Audit Committee must approve or ratify the transaction.

EXECUTIVE OFFICERS AND COMPENSATION INFORMATION

R. H. Dillon and James F. Laird are the Company's only Named Executive Officers. Their experience is described above under the heading PROPOSAL 1 ELECTION OF DIRECTORS. The Company has no executive officers other than our Named Executive Officers. Each Named Executive Officer devotes his full time and effort to the affairs of the Company.

Compensation Discussion and Analysis

Background

The Company is in the investment management industry. Human capital is the most important resource in this industry. A balancing of the economics between owners and employees is always important, especially in an industry that is not capital intensive. The Company is heavily dependent on talented individuals, which are the Company's most important resource. Attracting and retaining people can be more difficult, given the high percentage of a firm's value-proposition which is attributable to key people.

The balancing effort is particularly challenging because the Company was essentially a start-up in May 2000, but yet had the unusual legacy of being a publicly owned company, in contrast to the industry norm of partnership-like structures for investment management firms of a similar size. The Company has been able to attract and retain quality people due to:

An investment-centric culture,

Ownership in the business,

Table of Contents

Its central Ohio location, and

Nationally competitive compensation.

Compensation, which is a critical element in a business so dependent on talented employees, is often directly related to firm profitability levels. This requires a balancing of the economics of the business between increasing shareholder value and retaining and rewarding the employees who generate the profits and are dedicated to producing client investment results. Industry norms are helpful benchmarks for evaluating the balancing effort. Additionally, the Company attempts to enact a thoughtful alignment of incentives that may pertain more so to the Company than others in the industry, because of the ownership structure. As of February 28, 2011, on a fully diluted basis, employees and directors owned approximately 30% of the Company. In contrast, many competitor firms are owned entirely by their employees.

Compensation Program Objectives

The Company seeks 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) overall firm investment and operating performance, (ii) market compensation data and (iii) the profitability of the firm compared to other investment management firms.

In addition to their annual incentive compensation, upon commencing employment with the Company certain individuals were awarded options, warrants, restricted stock or a combination as an incentive to their continued employment. Generally these awards vest over five years to promote employee retention and long-term employee ownership. All options and warrants previously granted to these individuals have been fully exercised. The Company's current practice for equity awards is to grant restricted stock that vests over five years. The Company also seeks to increase the ownership percentage of all employees because it feels that will encourage all 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 same objectives.

Rewards Based on Performance

The Company's primary business objective is to meet its fiduciary duty to clients. Specifically, the 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 absolute returns are sufficient for the risk associated with the asset class. As it relates to the Company's investment professionals, the compensation program is designed to reward performance that supports these objectives. For those employees who are not a part of the Company's investment team, the compensation program varies but is based on rewarding individual performance that helps the Company meet its fiduciary duty to clients. The Company's second objective is to fulfill its fiduciary duty to shareholders by managing the firm and its assets to increase shareholder value over time. To support that objective, the Named Executive Officers are incented based on achieving operating profit margins that the Compensation Committee believes are fair and competitive.

Compensation Setting Process

Role of the Compensation Committee

The Compensation Committee of the Board (the Committee) has overall responsibility for evaluating and approving the structure, operation and effectiveness of the Company s compensation plans, policies and programs for all employees. The Committee consists of Lawrence E. Baumgartner, Donald B. Shackelford, and Frances A. Skinner. Mr. Shackelford serves as Chairman. Each member of the Committee is an outside director for purposes

Table of Contents

of Section 162(m) of the Internal Revenue Code and a non-employee director for purposes of Section 16(b) of the Securities Exchange Act of 1934. The Committee is specifically charged with the following:

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);

To 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 powers with respect to compensation intended to be performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code;

To retain compensation consultants as 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;

To 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

To 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 Company's 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 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 performance results and other strategic operating results.

Role of Management

The Company's CEO evaluates the CFO as part of the annual review process and makes recommendations to the Committee regarding all elements of executive compensation paid to him. Changes in executive compensation proposed by the Company's CEO are based on the individual executive'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, the Company's CEO and CFO attend Committee meetings to provide compensation and other information to the Committee, including information regarding the design, implementation and administration of the Company's 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 provides the Committee 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. However, historically the Committee has not engaged

compensation consultants and did not do so in 2010.

Each year the Company 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 over 100 public and private asset management companies with which the Company competes. 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 on a broad view of the analysis. The Committee does not set any compensation elements or levels based on targeting a certain

Table of Contents

percentile from the survey, but rather sets compensation that it believes to be 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 the Company competes with both public and private asset management firms regardless of their size and scope of operations.

Elements of Compensation

The compensation for the Company's Named Executive Officers is comprised of the following elements:

Base salary;

Annual performance-based incentive awards;

Retirement plan benefits; and

Other benefits and perquisites made available to all Company employees.

Base Salary

Base salaries for the Company's 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 1) scope of responsibility and complexity of position, 2) performance history, 3) tenure of service, 4) internal equity within the Company's salary structure, and 5) relative salaries of persons holding similar positions at companies within the investment management industry and are designed to reward knowledge and experience. In December 2009, the Compensation Committee made the determination not to increase the base salaries of the Named Executive Officers for fiscal year 2010. Consistent with the Company's desire to have the majority of total compensation paid to Named Executive Officers at risk in the form of incentive compensation, only 15 percent of the total Named Executive Officers' compensation in fiscal 2010 (as shown in the Summary Compensation table) was paid in the form of base salaries.

Annual Performance-based Incentive Awards

The Company's annual performance-based compensation awards for the Named Executive Officers are designed to advance the interests of the Company and its shareholders by linking the compensation of the Named Executive Officers to Company performance and the achievement of financial goals in the current fiscal year. A substantial portion of the Named Executive Officers' total compensation is in the form of annual performance-based compensation, and a substantial portion of that compensation is in the form of equity grants that are restricted from sale for a period of time.

The Company maintains two plans under which incentive awards are made. The 2006 Performance-Based Compensation Plan (the "2006 Plan") is an incentive compensation plan designed to satisfy the requirements of Section 162(m) of the Internal Revenue Code. This plan was approved by the Company's shareholders at its 2006 annual meeting. The cash portion of any award is governed by the 2006 Plan and the applicable award agreement with the participant under that plan. Additionally, the 2006 Plan provides that portions of incentive awards under the 2006 Plan may be paid in Company stock. Stock earned pursuant to incentive awards under the 2006 Plan is paid in the form of stock grants made under the Company's 2005 Employee and Director Equity Incentive Plan (the "2005 Plan"), which is an equity compensation plan that was approved by the Company's shareholders at its 2005 annual meeting.

The Company establishes an annual incentive plan each year in which it establishes a performance-based incentive pool (the Bonus Pool) for all eligible employees. This annual incentive plan comprises the framework and sets the specific goals under which awards will be made for that year under the 2006 Plan and the 2005 Plan. The Bonus Pool is calculated each year based on revenue multiplied by the target operating profit margin less operating expenses (excluding the expense related to such incentive awards). In setting the target operating profit margin, the Committee attempts to balance the economics of the business between increasing shareholder value and the retaining and rewarding the employees who generate the profits and are dedicated to producing client investment

Table of Contents

results. In doing so, the Committee reviews data on public and private asset management company profit margin trends, the expected growth of the Company, and staffing levels. The target operating profit margin, excluding the results of Beacon Hill Fund Services (the adjusted profit margin) for 2010 ranged from 30.3% at \$45 million in revenues to 33.3% at \$65 million in revenues. The results of Beacon Hill Fund Services were excluded from the target operating profit margin in 2008, 2009, and 2010 because it is a start-up subsidiary of the Company.

Annual performance-based incentive awards paid to the Named Executive Officers under the 2006 Plan are based upon the achievement of a specific performance target for the Company. The performance target is determined at the beginning of each performance period, taking into the consideration the performance target from the prior year, forecasted revenue, and the requirements of Section 162(m) of the Internal Revenue Code. Once it is determined that the performance target has been met, the calculation of the individual awards under the plan are determined. The Committee is responsible for determining eligibility for participation in the 2006 Plan. The Committee is also responsible for determining the maximum award potential for each participant, the objective performance goal(s) against which performance will be measured, certifying whether the performance goals have been met, and, ultimately, the award to be paid to each participant upon goal achievement. The maximum award potential for each participant is generally set as a percentage of the Bonus Pool as explained above. Awards made under the 2006 Plan are capped at \$5 million for each 2006 Plan participant on an annual basis.

Under the terms of Mr. Dillon's employment agreement with the Company, if, without Mr. Dillon's consent, the percentage assigned to Mr. Dillon of any Bonus Pool created by the Company for its employees is less than 20%, Mr. Dillon may resign and terminate his employment with the Company for good reason. In 2008, 2009, and 2010, in order to permit other employees to receive a larger bonus opportunity, Mr. Dillon consented to receiving less than 20% of the Bonus Pool.

In March 2010, the Committee established the following performance criteria for the year ended December 31, 2010, and the related potential award amounts that the Named Executive Officers would be eligible to earn upon achievement of that performance criterion:

If adjusted profit margin was at or above 32.2% then Mr. Dillon and Mr. Laird would be eligible to earn 20% and 5%, respectively, of the Bonus Pool;

If adjusted profit margin was between 16 and 32.2% then Mr. Dillon and Mr. Laird would be eligible to earn between 0% and 20% and 0% and 5%, respectively, of the Bonus Pool determined on a sliding scale with 0% as the floor if adjusted profit margin is 16% or less and 20% as the ceiling if adjusted profit margin is equal to 32.2%; and

If the adjusted profit margin was below 16%, then Mr. Dillon and Mr. Laird would not be eligible for any award.

A 32.2% adjusted profit margin, as detailed in the performance criteria above, would have resulted in an \$18.1 million Bonus Pool. The Company actually recorded adjusted profit margin of 34.7% which resulted in a Bonus Pool of \$16.1 million for the year ended December 31, 2010. Management provided the Board with a report related to the meeting of the pre-established performance target. Based upon that report, the Board certified that the pre-established performance target was met for the purpose of the plan and that the Named Executive Officers were eligible for the maximum potential award related to the achievement of the respective adjusted profit margin. The Committee then granted Mr. Dillon \$2.4 million or 14.9% of the performance based incentive pool and granted Mr. Laird \$700,000 or 4.3% of the performance based incentive pool. Of these total performance-based incentive awards, approximately 85% of Mr. Dillon's award and 79% of Mr. Laird's award were made in the form of restricted stock grants that were immediately vested but were restricted from sale. The remainder of the awards was made in cash. In determining the

percentage of the awards that should be in cash versus equity the Committee considered management's recommendation and the Company's overall desire to continually increase employee ownership to further align employees and shareholders.

The Company has no formal policy to adjust prior incentive awards to reflect restatement or adjustment of financial results. The Company believes that, due to the nature of its business, material restatements or prior period adjustments to operating results are highly unlikely. Individual awards made under the annual incentive plan are based on the factors discussed above and may increase or decrease materially from year to year consistent with

Table of Contents

similar changes in the relevant factors such as profitability and individual performance. The Company gives no weight to the economic impact of prior awards in making awards for the current year.

Retirement Plan Benefits

The Company provides retirement benefits through the Diamond Hill Investment Group 401k Plan. The Named Executive Officers are entitled to participate in this plan on the same terms and conditions as all other employees. The plan does not involve any guaranteed minimum or above-market returns, as plan returns depend on actual investment results.

Other Benefits and Perquisites

The Company does not provide supplemental retirement plan benefits or non-qualified compensation plans to the Named Executive Officers. As a general rule, the Company does not provide any perquisites or other personal benefits to its Named Executive Officers that are not offered on an equal basis to all employees. The Company's Named Executive Officers are entitled to participate in benefit programs that entitle them to medical, dental, short-term, and long-term disability insurance coverage that are available to all employees.

Post Employment Payments

Only the CEO has an employment contract which provides for payments upon termination of employment. The maximum payment that Mr. Dillon could receive in the event of his termination without cause is one year's salary, one year's incentive bonus (based on the prior year's bonus) and a prorated incentive bonus for the year of termination. More information on the employment agreement with our CEO and termination payments thereunder is set forth under the heading Employment Agreements and Change in Control Benefits.

Stock Ownership Guidelines

In February 2010, the Board adopted a stock ownership guideline for our executive officers to further align executive's interest with those of shareholders. This policy provides that our Named Executive Officers are expected to reach levels of ownership determined as a stated multiple of an executive's base salary within five years after the adoption of the guidelines or, if later, within five years from the date when the executive assumed his or her position. The below table provides the target ownership level and actual shares owned as of December 31, 2010.

Name	Title	Target Ownership Level	Target Number of Shares(a)	Number of Shares Owned	Ownership Guideline Met
R. H. Dillon	President and CEO	5x Salary	24,882	188,824	Yes
James F. Laird	Chief Financial Officer	3x Salary	8,294	68,296	Yes

(a) Based on a per share price of \$72.34, which was the closing price of our common shares on December 31, 2010, and the respective salaries of our Named Executive Officers as of that date.

Risks Related to Compensation Policies and Practices

As part of its oversight of the Company's executive and non-executive compensation programs, the Compensation Committee considers how current compensation programs, including the incentives created by compensation awards, affect the Company's risk profile. In addition, the Company reviews its 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 equity-based awards;

Table of Contents

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's discretionary authority to adjust annual incentive awards, which helps mitigate business risks associated with such awards;

The Company's internal control over financial reporting and other financial, operational and compliance policies and practices currently in place; and

Base salaries 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 Company has concluded that its compensation policies and procedures are not reasonably likely to have a material adverse effect on the Company.

Summary Compensation Table for 2010

The following table sets forth the compensation paid to or earned by Mr. Dillon and Mr. Laird during 2010, 2009 and 2008. The Company has no other executive officers. Additional information on the elements of compensation included in the table below, including a discussion of the amounts of certain components of compensation in relation to others, is available under the heading "Compensation Discussion and Analysis" above.

Name and Principal Position	Year	Salary	Stock Awards (1)	Non-Equity	All Other	Total
				Incentive Plan Compensation (2)	Compensation (3)	
R. H. Dillon President and CEO	2010	\$ 360,000	\$ 2,050,000	\$ 350,000	\$ 34,200	\$ 2,794,200
	2009	\$ 360,000	\$ 1,500,000	\$ 500,000	\$ 34,200	\$ 2,394,200
	2008	\$ 360,000	\$ 929,750	\$ 1,150,250	\$ 32,400	\$ 2,472,400
James F. Laird Secretary, Treasurer and Chief Financial Officer	2010	\$ 200,000	\$ 550,000	\$ 150,000	\$ 26,400	\$ 926,400
	2009	\$ 200,000	\$ 395,000	\$ 170,000	\$ 26,400	\$ 791,400
	2008	\$ 200,000	\$ 350,000	\$ 170,000	\$ 26,400	\$ 746,400

(1) 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 Messrs. Dillon and Laird under the 2005 Plan as partial payment for amounts earned under our 2010, 2009 and 2008 annual incentive plans. All shares were fully vested on the grant date but were restricted from sale for a period of time. The below table shows the details of the specific number of shares granted for each annual incentive plan year:

Name	Incentive Plan Year	Shares Granted	Grant Date	Sale Restriction Period
R. H. Dillon	2010	4,054	February 24, 2011	One Year

	2010	23,645	February 24, 2011	Five Years
	2009	21,502	February 17, 2010	One Year
	2009	2,801	February 17, 2010	Five Years
	2008	25,000	February 23, 2009	One Year
James F. Laird	2010	4,054	February 24, 2011	One Year
	2010	3,378	February 24, 2011	Five Years
	2009	4,999	February 17, 2010	One Year
	2009	1,401	February 17, 2010	Five Years
	2008	9,411	February 23, 2009	One Year

(2) Represents cash awards paid to Messrs. Dillon and Laird as partial payment for amounts earned under our 2010, 2009 and 2008 annual incentive plans. For more information on our annual incentive plan, please see the information above under the heading Compensation Discussion and Analysis.

Table of Contents

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

Name	Year	Contributions to Retirement Program (a)	Contributions to Health Savings Account (a)	Total
R. H. Dillon	2010	\$ 29,400	\$ 4,800	\$ 34,200
	2009	\$ 29,400	\$ 4,800	\$ 34,200
	2008	\$ 27,600	\$ 4,800	\$ 32,400
James F. Laird	2010	\$ 24,000	\$ 2,400	\$ 26,400
	2009	\$ 24,000	\$ 2,400	\$ 26,400
	2008	\$ 24,000	\$ 2,400	\$ 26,400

(a) Company contributions to Retirement Program and employee Health Savings Accounts are offered to all employees of the Company and its affiliates.

Grants of Plan Based Awards for 2010. The following table sets forth information regarding annual incentive plan awards to each of the Named Executive Officers for the year ended December 31, 2010.

Grant	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(2)	Estimated Possible Payouts Under Equity Incentive Plan Awards(2)	All		Exercise Or Base Price of Underlying Option	Grant Date Fair Value of Stock and Option
			Other Stock Awards: Number of Shares of Stock or	All Other Option Awards: Number of Securities		