Diamond Hill Investment Group, Inc.

2016 Annual Report

Notice of 2017 Annual Meeting

And Proxy Statement

DIAMOND HILL INVESTMENT GROUP, INC.
ANNUAL LETTER TO SHAREHOLDERS

March 10, 2017

Dear Fellow Shareholders:

Calendar year 2016 was a productive one for Diamond Hill Investment Group. Our clients benefited from robust domestic capital markets and generally strong results across our various investment strategies. As a firm, we also saw a number of significant developments and achievements. As always, these accomplishments were done within the context of our core values: i*ntrinsic value, long-term orientation, discipline,* and *partnership.*

As a fiduciary and client-centric firm, our foremost priority is generating excellent investment results over sufficiently long time periods (a minimum of five years) in each of our investment strategies. Due to our long-term investment style and disciplined approach toward identifying and holding securities with a margin of safety, we aim to partner with clients who are aligned with both our philosophy and time horizon, as we strive to maintain that alignment through consistent and effective communications.

We expect to accomplish the first critically important part of our mission-generating strong investment returns-by managing relatively concentrated, high-conviction portfolios constructed independent of benchmark weights using detailed research and a long horizon. Our intrinsic value-based philosophy is shared by all of our investment professionals, allowing us to consistently apply this investment discipline across all of our strategies.

Investment Strategy Results for Clients

We achieved strong long-term performance across most of our strategies compared to core benchmarks and peers. Though we accomplished many other things, this is always our most important mandate.

Our clients benefited from healthy U.S. equity markets that rallied sharply in the fourth quarter and posted well above average results for the year. As we witnessed throughout the year, markets around the world clearly reacted to various political developments. Most notably, the domestic equity markets saw sharp increases post the November elections. Financials and other cyclical sectors experienced the biggest gains. Those more economically sensitive areas, despite lagging badly during the first half of the year, ended up leading the market during 2016 while the more defensive sectors generally lagged.

The events of 2016, including the U.S. election, also influenced virtually the entire spectrum of credit markets. The 10-year Treasury yield increased from 1.88% to 2.07% on the day following the election, which represents the largest single-day move since October 2011. In the high yield market, cratering commodities prices and fears about illiquidity, among other issues, priced the market for a high likelihood of recession early in the year. When commodities prices stabilized and liquidity conditions improved, the high yield market began a sharp and sustained recovery.

Clearly, the robust markets provided a tailwind for our firm; however, prospectively we are a bit more cautious. Equity markets in the U.S. appear to be assigning historically elevated multiples to relatively lofty corporate profit margins. On the credit side, markets also enjoyed a significant tightening of spreads-which are now quite narrow by historical measures. No doubt, a meaningful driver of the post-election enthusiasm has been the prospect of corporate tax reform which, if enacted, should increase after-tax profits and nudge valuations back towards long-term averages. Nonetheless, we continue to expect modest market tailwinds over the next five years.

Other Key Developments

- We added to our team by hiring three experienced and accomplished fixed income professionals who had worked together for a number of years within the asset management division of a large financial services firm. These individuals, along with previous hires over the past few years, brought tremendous new skill and expertise to our firm. As a result, we were able to publicly launch three new fixed income strategies (High Yield, Short Duration Total Return, and Core Bond) last year. These new strategies, along with our Corporate Credit Fund, will be the foundation of our growing fixed income efforts. We approach this area of our business with our typical long-term commitment, and we view this effort as very meaningful for all of Diamond Hill's constituents.
- The sale of our Beacon Hill subsidiary was another significant event for the company. After much consideration, we concluded that Diamond Hill was an adequate financial partner for Beacon Hill but not likely an optimal strategic partner. The buyer was a larger service provider with complementary offerings as well as a deep bench of experienced professionals. The resulting combination represents an even stronger organization and a better strategic platform for our former colleagues. We wish them all well and look forward to our continued relationship with their new team as an important service provider to our Fund family.
- As we have communicated in the past, we believe management fees should reflect a fair split of economics between the client and the investment manager. Diamond Hill demonstrated this commitment to clients by reducing the Large Cap, Mid Cap, Research Opportunities, and Financial Long-Short management fees during the past 12 months. In addition, we continued to lower administrative fees across all of our Funds.
- We grew assets under management to $19.4 billion as of December 31, 2016. While stronger markets were clearly a tailwind, we also saw positive flows during the year despite an extremely challenging environment for many active managers. These *net* inflows are likely a result of excellent investment performance as well as our focus on identifying strong prospects, communicating effectively and ultimately collaborating with clients that share our long-term perspective.

Financial Results: Shareholder Value

Diamond Hill Investment Group generated revenue of $136 million in 2016 compared with $124 million in 2015 and $64 million in 2011. Assets under management finished the year at $19.4 billion, up 15% from 2015 and up 123% from 2011 as a result of the strong U.S. equity market along with net inflows into our strategies.

We generated net operating income of $63 million in 2016, an increase of 7% over 2015, and our operating margin of 46% was roughly in line with the 47% operating margin in 2015. By far our largest expense is the compensation of our associates. Included in this line item is a significant amount of variable incentive compensation, which can fluctuate from year to year. A variety of factors influence incentive compensation including the investment results generated for our clients, individual employee contributions, and overall company performance.

Over the past five years, Diamond Hill's tangible book value per share has increased from $6.03 at the end of 2011 to $40.81 at the end of 2016. Additionally, we have paid $26.00 per share in dividends over the past five years ($64.00 per share in total since our initial dividend payment in 2008). The $26.00 per share in dividends plus the $34.78 increase in tangible book value per share equals a total of $60.78 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 29% 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.

Outlook

Looking ahead, our top priority is the same as it has always been: meeting our fiduciary duty to clients through our persistent focus on achieving outstanding long-term investment results. Accomplishing that, along with our intentional efforts to identify the right client partners, should allow our investment strategies to grow to capacity. Collectively, our recently expanded lineup of investment strategies has significant room for growth, and despite very healthy inflows since inception, Diamond Hill represents a modest piece of the proverbial pie within the asset management industry.

Undoubtedly, our firm continues to face various industry challenges including what has now become a multi-year trend of assets moving from active to passive management. This market share shift is a consequence of both cyclical and secular forces that will ultimately lead to the demise of many active managers that lack a clear and compelling value proposition for clients. Likely not a surprise to anyone, we strongly believe in the critical role active management plays in our capital markets-based economy. We are quite confident the industry will continue to fulfill this role. Many excellent investment organizations that are committed to serving clients through outstanding investment results and the highest levels of service will thrive going forward. In that regard, we are determined to demonstrate our firm's abilities and the value we bring to our client partnerships.

As I reflect on my first year as CEO, I feel privileged to be part of this team, proud of all that we have accomplished, and excited about our future. I believe Diamond Hill remains well positioned to meet our objectives due to our proven investment philosophy along with a highly skilled, stable team serving increasingly well-aligned clients.

Sincerely,

Chris M. Bingaman

Chris Bingaman
Chief Executive Officer

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

March 10, 2017

Dear Shareholders:

We cordially invite you to attend the 2017 Annual Meeting of Shareholders of Diamond Hill Investment Group, Inc. to be held at The Eye Center of Columbus, 262 Neil Ave., Columbus, Ohio 43215, on Wednesday, April 26, 2017, 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,

Chris M. Bingaman

Christopher M. Bingaman
Chief Executive Officer

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, 2017

Notice is hereby given that the 2017 Annual Meeting of Shareholders (the "Annual Meeting") of Diamond Hill Investment Group, Inc. (the "Company"), will be held at The Eye Center of Columbus, 262 Neil Ave., Columbus, Ohio 43215, on Wednesday, April 26, 2017, 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 2018 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, 2017;
3) an amendment to the Company's Amended and Restated Articles of Incorporation (the "Articles") and a related amendment to the Company's Amended and Restated Code of Regulations (the "Regulations") to implement majority voting in uncontested director elections unless cumulative voting is in effect;
4) an amendment to the Articles and a related amendment to the Regulations to eliminate cumulative voting;
5) a non-binding, advisory resolution to approve the compensation of the Company's named executive officers;
6) an advisory vote on the frequency of advisory votes on the compensation of the Company's executive officers; and
7) 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 3, 2017, 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 proxy card, 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 card. 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 10, 2017

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 26, 2017:
The Proxy Statement and the Company's 2016 Annual Report on Form 10-K are available without charge at the following location:
http://www.diamond-hill.com/proxy

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, 2017

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 (the "Board") for use at our 2017 Annual Meeting of Shareholders (the "Annual Meeting") to be held at 10:00 a.m. Eastern Daylight Saving Time on April 26, 2017, 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 10, 2017. Only our shareholders of record at the close of business on March 3, 2017, 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 2018 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, 2017;

3) To consider and vote upon amendments to the Company's Amended and Restated Articles of Incorporation (the "Articles") and the Company's Amended and Restated Code of Regulations (the "Regulations") to implement majority voting in uncontested director elections unless cumulative voting is in effect;

4) To consider and vote upon amendments to the Articles and the Regulations to eliminate cumulative voting;

5) To consider and vote upon a non-binding, advisory resolution to approve the compensation of our named executive officers;

6) To hold an advisory vote on the frequency of advisory votes on the compensation of the Company's executive officers; and

7) 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 7:00 p.m. Eastern Daylight Saving Time on April 25, 2017 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.

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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 The Eye Center of Columbus, 262 Neil Ave., Columbus, Ohio 43215, on Wednesday, April 26, 2017, at 10:00 a.m. Eastern Daylight Saving Time.

Q: What may I vote on?

A: At the Annual Meeting, you will be asked to consider and vote upon:

- the election of six directors to serve on the Board until our 2018 Annual Meeting of Shareholders;
- the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2017;
- amendments to the Articles and Regulations to implement majority voting in uncontested director elections unless cumulative voting is in effect;
- amendments to the Articles and Regulations to eliminate cumulative voting;
- a non-binding, advisory resolution to approve the compensation of our named executive officers; and
- an advisory vote on the frequency of 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 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 7:00 p.m. Eastern Daylight Saving Time on Tuesday, April 25, 2017. 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, please 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 2017 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 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 7:00 p.m. Eastern Daylight Saving Time on April 25, 2017; or
- attend the Annual Meeting and either 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. 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 holder 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 3, 2017, the record date, will be entitled to vote at the Annual Meeting. As of the record date, there were 3,436,245 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. The Board's 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.

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 2017.

Amendments to Articles and Regulations to implement majority voting. The affirmative vote of a majority of the Company's outstanding common shares is required to amend the Articlesand Regulation to implement majority voting in uncontested director elections unless cumulative voting is in effect.

Amendments to Articles and Regulations to eliminate cumulative voting. The affirmative vote of a majority of the Company's outstanding common shares is required to amend Articles and Regulation to eliminate cumulative voting.

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.

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. Under the applicable regulations of the Securities and Exchange Commission (the "SEC") and the rules of the exchanges and other self-regulatory organizations of which the brokers are members, brokers who hold common shares in street name for beneficial owners may sign and submit proxies and may vote our common shares on certain "routine" matters. The ratification of KPMG is considered routine. Under applicable stock exchange rules, brokers are not permitted to vote without instruction in the election of directors or on the amendments to the Articles and the Regulations to implement majority voting and to eliminate cumulative voting in director elections. In addition, SEC regulations prohibit brokers from voting without customer instruction on the approval of named executive officer compensation. Proxies that are signed and submitted by brokers that have not been voted on certain matters are referred to as "broker non-votes."

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. Abstentions and non-votes will have the same effect as a vote against the proposals to amend the Articles and Regulations to implement majority voting and to eliminate cumulative voting.

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, 2016, 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.

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 3, 2017, by (a) all persons known by us to beneficially own five percent or more of the Company's outstanding shares, (b) each director of the Company, (c) our Chief Executive Officer, 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 also voluntarily disclosed all common shares beneficially owned by all other employees of the Company, excluding our executive officers. Unless otherwise indicated, the named persons exercise sole voting and dispositive power over the shares listed. None of the named persons hold any outstanding options to acquire our common shares, and none of the named persons have pledged any common shares of the Company as security.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Percent of Class(1)
Christopher M. Bingaman	29,529	(2)	*
R. H. Dillon	112,417	(2)	3.3%
Randolph J. Fortener	6,000		*
James F. Laird	48,262		1.4%
Thomas E. Line	5,740	(2)	*
Paul A. Reeder III	8,000		*
Bradley C. Shoup	6,000		*
Frances A. Skinner	7,400		*
Lisa M. Wesolek	26,383	(2)	*
Directors, nominees, and executive officers as a group (9 persons)	249,731		7.3%
All other employees of the Company (109 persons)	531,996	(3)	15.5%
5% Beneficial Owners			
FMR LLC(4)	250,290		7.3%
BlackRock, Inc.(5)	224,787		6.5%
Wells Fargo & Company (6)	192,087		5.6%

(1) Beneficial ownership of less than one percent is represented by an asterisk (*). The percent of class is based upon the number of shares beneficially owned by the named person divided by 3,436,245, which was the total number of shares that were issued and outstanding as of March 3, 2017.

(2) Includes 3,014 shares, 3,442 shares, 428 shares, and 1,182 shares for Mr. Bingaman, Mr. Dillon, 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. For Mr. Dillon, also includes 2,300 shares held in Charitable Remainder Annuity Trust for which Mr. Dillon possess both voting power and the power to dispose.

(3) Includes all employees of Diamond Hill Investment Group, Inc. and its subsidiaries as of March 3, 2017, excluding executive officers and Mr. Dillon. 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 60,897 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 FMR LLC is 245 Summer Street, Boston, MA 02210. Based on information contained in a Schedule 13G/A filed with the SEC on February 14, 2017, by FMR LLC. In this Schedule 13G, FMR LLC reported sole voting power over 56,337 shares and sole dispositive power over 250,290 shares on behalf of Fidelity Institutional Asset Management Trust Company and FMR Co. Inc..

(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 January 23, 2017, by BlackRock, Inc. In this Schedule 13G/A, BlackRock, Inc. reported sole voting power over 218,628 shares and sole dispositive power over 224,787 shares on behalf of the following subsidiaries: BlackRock (Netherlands) B.V., BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Asset Management Schweiz AG, BlackRock Financial Management, Inc., BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A., and BlackRock Investment Management, LLC.

(6) The address for Wells Fargo & Company is 420 Montgomery Street, San Francisco, CA 94163. Based on information contained in a Schedule 13G filed with the SEC on January 27, 2017, by Wells Fargo & Company. In this Schedule 13G, Wells Fargo & Company reported sole voting and dispositive power over 2,148 shares, shared voting power over 84,951

shares, and shared dispositive power over 189,939 shares on behalf of the following subsidiaries: Wells Fargo Clearing Services, LLC, Wells Fargo Advisors Financial Network, and Wells Fargo Bank, N.A.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our executive officers and directors, and any persons who beneficially own more than ten percent of the Company's shares (the "Reporting Persons"), to file with the SEC initial reports of beneficial ownership on Form 3 and reports of changes in beneficial ownership on Form 4 and Form 5 by specified deadlines. 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, 2016, except that a Form 4 for Ms. Wesolek was filed 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. Pursuant to the recommendation of the Nominating and Governance Committee, the Board has nominated the six nominees listed below for election, all of whom 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 Annual 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 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 60, has been a director of the Company since 2001 and chairman since 2015. He served as the CEO of the Company from 2000 to 2015 and continues to serve as a portfolio manager. Mr. Dillon has over 35 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 15 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 63, has been an independent director of the Company since 2013, is the chair of the Audit Committee, serves on the Nominating and Governance Committee and Compensation Committee, and is an audit committee financial expert, as defined by the SEC. Since 2014, Mr. Fortener has been the CEO of Cozzins Road Capital, a private investment firm. As CEO of Cozzins Road Capital, Mr. Fortener directs all investment and acquisition activity for the company. Previously, 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 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 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 60, has been a director of the Company since 2011, 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 is currently retired. 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 55, has been an independent director of the Company since 2015 and serves on the Audit Committee, Nominating and Governance Committee, and the Compensation Committee, and is an audit committee financial expert, as defined by the SEC. 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 58, has been an independent director of the Company since 2012, is the chair of the Nominating and Governance Committee, serves on the Audit Committee and Compensation Committee, and is an audit committee financial expert, as defined by the SEC. Mr. Shoup is currently a private investor. He was a Partner at Falcon Fund Management Ltd. from 2013 to 2016. 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 52, has been an independent director of the Company since 2010, is the chair of the Compensation Committee, serves on the Audit Committee and Nominating and Governance Committee, and is an audit committee financial expert, as defined by the SEC. 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., a management consulting firm specializing in the investment management industry 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.

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, 2016. Each director attended all of the 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 each regularly scheduled Board meeting in 2016. 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 2016 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 on our website, 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 7, 2014. 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. Reeder, Mr. Shoup, and Ms. Skinner serve on the Audit Committee, which met four times during 2016. 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. Reeder, Mr. Shoup, and Ms. Skinner also meets the criteria to be an audit committee financial expert as defined by the SEC.

The primary purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities with respect to 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 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."

Compensation Committee

Mr. Fortener, Mr. Reeder, Mr. Shoup, and Ms. Skinner serve on the Compensation Committee, which met three times during 2016. 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 salaries, bonuses, stock grants and other benefits, direct and indirect, of our executive officers, 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 employees within specific parameters to align the interests of our shareholders and our employees and 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. Reeder, Mr. Shoup, and Ms. Skinner serve on the Nominating and Governance Committee, which met twice during 2016. 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, director orientation and education, and Board evaluations. The Nominating and Governance Committee identifies, evaluates, and nominates Board candidates; reviews compliance with director stock ownership guidelines; and oversees procedures regarding shareholder nominations and other shareholder 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 2016.

Director	***Audit***	***Compensation***	***Nominating and Governance***
R. H. Dillon	—	—	—
Randolph J. Fortener	Chair	Member	Member
James F. Laird	—	—	—
Paul A. Reeder, III	Member	Member	Member
Bradley C. Shoup	Member	Member	Chair
Frances A. Skinner	Member	Chair	Member
Number of Meetings in 2016	4	3	2

Compensation of Directors

The Compensation Committee is responsible for periodically reviewing and recommending to the Board the compensation of our 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 determined that the use of long-term cliff vesting restricted stock awards as the sole form of 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 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, to further align the interests of our directors and shareholders, 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 2016.

2016 Director Compensation[(1)]

Name	Cash	Stock Awards	All Other Compensation	Total
R. H. Dillon [(2)]	$ 500,000	$ 500,000	$ 28,200	$ 1,028,200
Randolph J. Fortener	$ —	$ —	$ —	$ —
James F. Laird	$ 20,000	$ —	$ —	$ 20,000
Paul A. Reeder, III	$ —	$ —	$ —	$ —
Frances A. Skinner	$ —	$ —	$ —	$ —
Bradley C. Shoup	$ —	$ —	$ —	$ —

(1) Omits those columns where no compensation was awarded or earned.
(2) Mr. Dillon is Chairman of the Board of Directors and is also a non-executive employee of the Company. The compensation shown in this table relates solely to Mr. Dillon's role an employee of the Company. Mr. Dillon's cash compensation included $200,000 in base salary and $300,000 in discretionary bonus. He also received $24,000 in 401k contributions and $4,200 in health savings account contributions.

On January 1, 2016, the Company entered into a new Employment Agreement with Mr. Dillon in consideration of his continued employment as a portfolio manager. For more information on this agreement, see the discussion under the heading "Employment Agreements and Change in Control Benefits".

Outstanding Stock Grants to Directors

The below table shows the amount of unvested restricted stock grants outstanding to directors as of December 31, 2016 and the service period covered by the grant. All of these grants vest in full at the conclusion of the applicable service period.

Name	Shares Granted	Approximate Service Period	Service Period Covered	Grant-Date Fair Value	Grant Date	Vesting Date
Randolph J. Fortener	6,000	Five Years	4/24/13 – 4/30/18	$452,940	4/30/13	4/30/18
James F. Laird	8,000	Ten Years	4/30/15 – 4/30/25	$1,125,760	2/27/15	4/30/25
Paul A. Reeder, III	8,000	Ten Years	4/30/15 – 4/30/25	$1,457,600	4/30/15	4/30/25
Frances A. Skinner[(1)]	6,000	Five Years	1/1/12 – 12/31/16	$462,060	2/22/12	1/1/17
Bradley C. Shoup	6,000	Five Years	4/25/12 – 4/30/17	$454,140	4/25/12	4/30/17

(1) This existing award of 6,000 shares vested on January 1, 2017. On October 26, 2016, the Compensation Committee approved a new award of 2,700 shares of restricted stock to Ms. Skinner with a grant date of January 1, 2017 and a vesting date of April 30, 2020.

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, except for sales of shares to pay taxes due upon vesting. 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.

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 Nominating and Governance Committee has adopted Corporate Governance Guidelines and reviews them annually. The most current version of the Guidelines is available on our website, ir.diamond-hill.com, under "Corporate Governance" on the right hand side of the site.

Board Leadership and Composition

The Chairman approves Board agendas and schedules, chairs all executive sessions of the directors, acts as the liaison between the 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.

Concurrent with the election of Mr. Dillon as Chairman of the Board in April 2015, the Board also appointed Mr. Laird as Lead Outside Director. The responsibilities of the Lead Outside Director include all of the duties of Chairman when the Chairman is not present.

Currently, four of our six directors are independent under NASDAQ standards. In addition, the Nominating and Governance Committee, the Audit Committee, and the Compensation Committee are all comprised entirely of independent directors. 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

Effective January 1, 2016, Christopher M. Bingaman was named Chief Executive Officer, succeeding Mr. Dillon.

The Company has established an Executive Leadership Team and three divisional leadership teams. The members of the Executive Leadership Team include 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 to provide 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.

The Nominating and Governance Committee supervises the nomination process for directors. It considers the performance, independence, background, experience, gender and other forms of diversity, as well as 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. We do not 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. Additionally, all potential nominees 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 various Board committees must meet all applicable independence and financial literacy qualifications required by NASDAQ, the SEC, and other applicable laws and regulations. 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. In the event of such a recommendation, the Nominating and Governance Committee would consider the recommendation 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 the Company 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 2016. 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 2016 were Mr. Fortener, Mr. Reeder, Mr. Shoup and Ms. Skinner. No director who served on the Compensation Committee during 2016 currently is, or during 2016 was, an officer, employee or former officer of the Company or had any relationship during 2016 requiring disclosure by us under Item 404 of SEC Regulation S-K. During 2016, 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.

Executive Officers and Compensation Information

During 2016, Christopher M. Bingaman, Thomas E. Line, and Lisa M. Wesolek were the Company's only executive officers. Mr. Bingaman, Mr. Line and Ms. Wesolek's experience is described below. Each executive officer devotes his or her full time and effort to the affairs of the Company.

Christopher M. Bingaman, age 51, was named Chief Executive Officer of the Company effective January 1, 2016, 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 Bachelor of Arts 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.

Thomas E. Line, age 49, is the Chief Financial Officer and Treasurer of the Company since 2015 and also serves as Chief Executive Officer of the Diamond Hill Funds. Mr. Line joined Diamond Hill in 2014. Mr. Line served as a Trustee and Chairman for Diamond Hill Funds from 2005 to 2014. From 2012 to 2014, Mr. Line was Chief Operating Officer for Lancaster Pollard & Company. Mr. Line was Managing Director and Chief Financial Officer for Red Capital Group from 2005 to 2012 and was Vice President and Treasurer from 2004 to 2005. From 2002 to 2004, Mr. Line was President of Focused Financial Consulting, Inc. From 1998 to 2002, Mr. Line was Chief Operating Officer for Meeder Financial, Inc. From 1996 to 1998, Mr. Line was Vice President and Treasurer for BISYS Fund Services, Inc. Prior to 1996, Mr. Line spent seven years at KPMG in various roles. Mr. Line has over 25 years of experience in the investment management industry.

Mr. Line has a Bachelor of Science in Accounting from Wake Forest University, and previously held the Series 27 securities license with the Financial Industry Regulatory Authority, and is a Certified Public Accountant (inactive).

Lisa M. Wesolek, age 53, 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 30 years of experience in the investment management industry.

Ms. Wesolek received her Bachelor of Science 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:

- Christopher M. Bingaman, who served as our Chief Executive Officer and President in 2016;
- Thomas E. Line, who served as our Chief Financial Officer and Treasurer in 2016; and
- Lisa M. Wesolek, who served as our Chief Operating Officer in 2016.

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 and benefits 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 3, 2017, our employees and directors owned approximately 23% of the Company. In contrast, many competitor 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 this balancing of economics.

At our 2016 Annual Meeting of Shareholders, our shareholders voted upon an advisory resolution to approve the compensation of our executive officers. The compensation of our named executive officers was approved by 99% 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 support our previous compensation practices and the Committee's overall judgment related to our compensation practices. The Committee considered that endorsement in establishing the compensation of our executive officers for 2016.

Compensation Program Objectives

We seek to attract and retain people with integrity, intelligence and energy. All of our 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) our profitability 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. We also seek to increase employee ownership because we believe such ownership encourages employees to act and think like owners. While compensation amounts differ depending upon position, responsibilities, performance and competitive data, we seek 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. 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 28.8% compared to a 14.5% 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. Reeder, 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, 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;
- obtain advice and assistance as it deems necessary from internal or external legal, accounting or other advisors;
- 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 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 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 2015 or 2016.

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, including the types and amounts of compensation paid generally by the companies surveyed. 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 our 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 October 2015, the Committee made the determination to increase the base salary of the CEO to $300,000. In February 2016, the Committee made the determination to increase the base salary of the COO to $250,000. 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.

Annual Cash Bonuses. 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 2016. The Committee believes a discretionary cash bonus provided the Committee with the flexibility to consider all aspects of Mr. Bingaman's performance and contributions to the Company as CEO, President and Portfolio Manager. In determining the amount of Mr. Bingaman's cash bonus, the Committee considered the Company's overall operating results for 2016, the investment results in client portfolios, client service, overall contributions to the investment team, and broad market compensation data.

The Committee awarded a discretionary cash bonus to Mr. Line to reward him for his strong performance and overall contributions to the Company in fiscal year 2016. The Committee believes that a discretionary cash bonus provided the Committee with the flexibility to consider all aspects of Mr. Line's performance and contributions to the Company which, for a CFO and Treasurer, may not be as directly tied to our operating income. In determining the amount of Mr. Line's cash bonus, the Committee considered the Company's overall operating results for 2016, contributions by Mr. Line that were not reflected in our operating results, and broad market compensation data.

The Committee did not award Ms. Wesolek a discretionary cash bonus because the Restricted Stock Award discussed below is intended to comprise all of her incentive compensation.

Restricted Stock Unit Award to Mr. Bingaman. In October 2015, the Committee awarded 13,000 shares of performance-based restricted stock units ("PRSUs") to Mr. Bingaman pursuant to the Company's 2014 Plan covering the performance period of January 1, 2016 through December 31, 2017. The grant called for 6,500 PRSUs to vest on each of January 1, 2017 and January 1, 2018, 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 period and any investment losses and all taxes) exceeded $40,000,000. If the Company's annual operating profit during in either calendar year period is less than $40,000,000, a reduced number of PRSUs will vest on January 1st of 2017 or 2018, respectively, according to a schedule that scales down from 6,500 PRSUs at $40,000,000 in operating profit to zero PRSUs at or below $0 in operating profit. Any PRSUs that do not vest will be forfeited. The first 6,500 PRSUs vested in full on January 1, 2017, as the performance conditions were met. All PRSUs that vest are settled in shares of the Company's common stock on a 1-for-1 basis and are subject to restrictions on sale or transfer for five years following the vesting date. This PRSU award is intended to comprise all of Mr. Bingaman's equity-based compensation for the 2016 and 2017 compensation years.

Restricted Stock Unit Award to Mr. Line. In December 2014, management granted 15,000 of restricted stock units ("RSUs) to Mr. Line pursuant to the Company's 2014 Plan as long-term incentive compensation. Vesting of this award is time based and 3,000 of these RSUs vest on each April 1st from 2015 through 2019. Each RSU that vests will be settled in shares of the Company's common stock on a 1-for-1 basis. Upon vesting, the resulting shares will be subject to restrictions on sale or transfer for an additional five years from each respective vesting date. Mr. Line was named Chief Financial Officer and Treasurer effective January 1, 2015. Management believes this compensation structure strongly aligns the long-term interests of Mr. Line with those of the Company and its shareholders. This RSU award is intended to comprise all of Mr. Line's equity-based compensation for the 2014 through 2018 compensation years.

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. Vesting of this award is time based 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"), (each individually, a "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 other employees. Our named executive officers are entitled to participate in benefit programs that entitle them to the same medical, dental, and short-term and long-term disability insurance coverage that are available to all employees.

Post-Employment Payments. No named executive officer has an employment contract or severance arrangement, and we do not provide any post-employment payments to our named executive officers, other than pursuant to our 401k Plan and Deferred Compensation Plans.

Stock Ownership Guidelines

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, 2016. Each named executive officer currently holds shares well in excess of the amounts required under the guidelines.

Name	Title	Target Ownership Level	Target Number of Shares(a)	Number of Shares Owned (b)	Ownership Guideline Met
Christopher M. Bingaman	CEO and President	5x Salary	7,130	39,248	Yes
Thomas E. Line	Chief Financial Officer	3x Salary	2,852	14,720	Yes
Lisa M. Wesolek	Chief Operating Officer	2x Salary	2,377	26,359	Yes

(a) Based on a per share price of $210.38 which was the closing price of our common shares on December 31, 2016, and the respective base salaries of our named executive officers as of that date.

(b) Includes any unvested restricted stock and restricted stock units, as well as 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 on 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, in the sole discretion of the Compensation Committee and the Board, be returned to the Company or an additional payment may be made to an employee;
- if an employee engages in fraud or misconduct that contributes to the need for a financial restatement, or violates any law or regulation or any policy or procedure of the Company then we may, in the sole discretion of the Compensation Committee and the Board, recoup all or a portion of the employee's incentive compensation; and
- if the Compensation Committee determines that the Company's previously issued financial statements are restated as a result of error, omission, fraud or non-compliance with financial reporting requirements, then we may recoup,

in the sole discretion of the Compensation Committee and the Board, all or a portion of the employee's incentive compensation.

The policy is intended to provide enhanced safeguards against certain types of employee 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. Since 2013, all awards have been 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 Position	Year	Salary	Bonus[(1)]	Stock Awards[(4)]		All Other Compensation[(5)]	Total
Christopher M. Bingaman	2016	$ 300,000	$ 600,000	$ 2,360,860	(2)	$ 38,100	$ 3,298,960
Chief Executive Officer	2015	$ 250,000	$ 400,000	$ —		$ 36,300	$ 686,300
and President	2014	$ 250,000	$ 400,000	$ 1,521,669	(3)	$ 36,300	$ 2,207,969
Thomas E. Line	2016	$ 200,000	$ 225,000	$ —		$ 29,600	$ 454,600
Chief Financial Officer	2015	$ 200,000	$ 225,000	$ —		$ 29,600	$ 454,600
and Treasurer							
Lisa M. Wesolek	2016	$ 250,000	$ —	$ —		$ 35,600	$ 285,600
Chief Operating Officer	2015	$ 200,000	$ —	$ —		$ 29,600	$ 229,600
	2014	$ 200,000	$ —	$ —		$ 29,600	$ 229,600

(1) Mr. Bingaman and Mr. Line were each granted a discretionary cash bonus award, which was not based upon any pre-established performance goals.

(2) This award represents 13,000 PRSUs awarded to Mr. Bingaman on January 1, 2016 as part of a long-term performance-based incentive program under the 2014 Plan and constitutes the stock portion of Mr. Bingaman's incentive compensation for the years 2016 and 2017. 6,500 PRSUs vested on January 1, 2017 and the other 6,500 PRSUs are scheduled to vest on January 1, 2018, both subject to the achievement of performance goals established by the Compensation Committee and described above in the "Compensation Discussion and Analysis" section.

(3) This award represents 14,000 PRSUs 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 PRSUs vested on January 1, 2015 and the other 7,000 PRSUs vested on January 1, 2016, based on the achievement of performance goals established by the Compensation Committee

(4) 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. All PRSUs that vest have, or will be, settled in an equivalent number of common shares of the Company and are subject to further restrictions from transfer or sale for a five-year period following the respective vesting date.

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

Name	Year	Contributions to Company 401k Plan[(a)]	Contributions to Health Savings Account[(a)]	Total
Christopher M. Bingaman	2016	$ 31,800	$ 6,300	$ 38,100
	2015	$ 30,000	$ 6,300	$ 36,300
	2014	$ 30,000	$ 6,300	$ 36,300
Thomas E. Line	2016	$ 24,000	$ 5,600	$ 29,600
	2015	$ 24,000	$ 5,600	$ 29,600
Lisa M. Wesolek	2016	$ 30,000	$ 5,600	$ 35,600
	2015	$ 24,000	$ 5,600	$ 29,600
	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 2016

The following table sets forth information regarding annual incentive plan awards to each of the named executive officers for the year ended December 31, 2016.

Name	Grant Date	Compensation Committee Action Date [(1)]	Estimated Possible Payouts Under Equity Incentive Plan Awards			Grant Date Fair Value of Stock and Options
			Threshold #	Target #	Maximum #	Awards $
Christopher M. Bingaman	01/01/2016	10/28/2015	—	13,000	—	2,360,860
Thomas E. Line	—	—	—		—	
Lisa M. Wesolek	—	—	—	—	—	—

(1) The Compensation Committee Action Date represents the date on which the Committee authorized the equity-based award. On October 28, 2015, the Compensation Committee granted an award of 13,000 PRSUs to Mr. Bingaman with a grant date of January 1, 2016, pursuant to the 2014 Plan. This grant is intended to represent the long-term equity component of Mr. Bingaman's 2016 and 2017 incentive compensation. One-half of the shares, or 6,500 shares, vested on January 1, 2017. Subject to meeting performance conditions, the remaining 6,500 PRSU's will vest on January 1, 2018.

Outstanding Equity Awards at December 31, 2016

The following table summarizes all outstanding equity awards held by our named executive officers as of December 31, 2016.

Name	Stock Awards		
	Equity Incentive Plan Awards: Number of Unearned Shares That have Not Vested[(1)]		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares That Have Not Vested[(5)]
Christopher M. Bingaman	13,000	(2)	$ 2,734,940
Thomas E. Line	9,000	(3)	$ 1,893,420
Lisa M. Wesolek	5,000	(4)	$ 1,051,900

(1) The amount in this column represents shares of restricted stock or restricted stock units awarded pursuant to the 2011 Plan and the 2014 Plan, which are described in detail above under the heading "Compensation Discussion and Analysis."

(2) One-half, or 6,500, of those shares vested on January 1, 2017.

(3) These shares are scheduled to vest in equal installments of 3,000 shares on each April 1st of 2017 through 2019, subject to Mr. Line's continued employment with the Company on those respective dates.

(4) These shares are scheduled to vest on July 1, 2017, subject to Ms. Wesolek's continued employment with the Company on that date.

(5) The amount in this column represents the value of the shares shown multiplied by $210.38, the closing market price of our common shares as of December 31, 2016.

Option Exercises and Stock Vested for 2016

None of the named executive officers exercised any options during 2016. The following table sets forth information with respect to stock awards that vested in 2016.

	Stock Awards	
Name	Number of Shares Acquired on Vesting	Value Realized on Vesting
Christopher M. Bingaman	7,000	$ 1,323,000
Thomas E. Line	3,000	$ 522,000
Lisa M. Wesolek	5,000	$ 1,048,000

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 incentive compensation and up to 100% of the cash portion of their annual incentive compensation 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.

None of the named executive officers contributed to the Deferred Compensation Plans, and none had a balance under such plans as of December 31, 2016.

Employment Agreements and Change in Control Benefits

On January 1, 2016, Mr. Dillon and Diamond Hill Capital Management, Inc., a wholly-owned subsidiary of the Company, entered into an employment agreement setting forth the terms of his continued employment as a portfolio manager. This employment agreement has a term of five years, subject to early termination. Mr. Dillon receives an annual salary of $200,000 and is eligible to receive an annual bonus using the same criteria as applicable to the other portfolio managers of the Company. Mr. Dillon is also entitled to an additional bonus based upon the net revenue of an operating division to which he provides certain of his services. If Mr. Dillon's employment is terminated without cause, he will be entitled to one year's base salary and a pro-rata portion of any incentive compensation. Mr. Dillon's employment agreement has no provision for change in control benefits.

None of our named executive officers is party to an employment agreement with the Company, and there are no agreements with such persons providing for change in control benefits or other post-employment compensation.

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, 2016.

Submitted by the Compensation Committee of the Board of Directors:

Frances A. Skinner, Chair
Paul A. Reeder, III
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 carry out this responsibility, the Committee engages in an evaluation of the independent auditor's qualifications, performance, and independence. The Committee also 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 2017. 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 interests 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 2017, and may or may not make any changes to such appointment.

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 2017.

If Proposal 2 is not approved, the Audit Committee will reconsider the appointment of KPMG as our independent registered public accounting firm for 2017.

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 2016 and 2015.

	Year Ended 12/31/2016	Year Ended 12/31/2015
Audit Fees[1]	$ 154,000	$ 146,200
Audit-Related Fees[2]	23,450	—
Tax Fees	$ 42,500	$ 51,625
All Other Fees	—	—
Total Fees	$ 219,950	$ 197,825

(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. The 2015 amount includes $11,200 paid in 2015 related to the 2014 audit. The 2016 amount includes $9,000 paid in 2016 related to the 2015 audit.

(2) Audit-Related Fees for 2016 include services related to consultation on the sale of a subsidiary and to analysis on the consolidation of proprietary mutual funds.

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 its 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 four 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, 2016.

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, 2016. The Audit Committee reviewed the audit plan and scope with KPMG and discussed with KPMG the matters required by the PCAOB Auditing Standard 16, as amended, – *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, 2016, were prepared in accordance with United States generally accepted accounting principles. Based on the Audit Committee's discussions with management and KPMG and its 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, 2016, filed with the SEC.

Submitted by the Audit Committee of the Board of Directors:

Randolph J. Fortener, Chairman
Paul A. Reeder, III
Bradley C. Shoup
Frances A. Skinner

PROPOSAL 3 - AMEND THE COMPANY'S AMENDED AND RESTATED ARTICLES OF INCORPORATION AND THE COMPANY'S AMENDED AND RESTATED CODE OF REGULATIONS TO IMPLEMENT MAJORITY VOTING IN UNCONTESTED DIRECTOR ELECTIONS UNLESS CUMULATIVE VOTING IS IN EFFECT

The Board is submitting for consideration and approval by our shareholders amendments to the Company's Amended and Restated Articles of Incorporation (the "Articles") and the Company's Amended and Restated Code of Regulations (the "Regulations") to implement majority voting in uncontested director elections, unless cumulative voting is in effect.

The full text of the proposed amendments is attached as Appendix A to this Proxy Statement.

Historically, Ohio law governing director elections provided that each director nominee who received the highest number of affirmative votes cast was elected, regardless of whether such votes constituted a majority of all votes cast. This system, called plurality voting, is currently utilized by the Company for director elections. Until 2008, no other voting standard was permissible for Ohio corporations.

As some investors began expressing a desire for majority voting, in which only directors who receive an affirmative vote of a majority of the votes cast are elected become directors, Ohio law was changed. While Ohio law still provides for plurality voting as the default standard in director elections, effective January 1, 2008, it permits companies to provide in their articles of incorporation for a majority voting standard.

Over the past few years, the Board has monitored and reviewed developments surrounding the majority vote standard in uncontested director elections. Majority voting is now viewed by many as a better corporate governance practice, ensuring that a majority of a company's shareholders approve of a nominee before he or she is elected to the board of directors in an uncontested election. The Board also received requests from our shareholders to implement majority voting. The Board believes the proposed amendments would ensure that each vote is specifically counted "for" or "against" a director's election, and would further enhance the accountability of each director to our shareholders. No director would be elected unless he or she receives more votes cast "for" than "against." Shareholders would also be entitled to abstain from voting with respect to the election of any director without affecting the vote. Abstentions and broker non-votes would have no effect in determining whether the required affirmative majority vote has been obtained.

The majority vote standard would apply only in uncontested elections. An uncontested election generally occurs when the number of director nominees does not exceed the number of available director positions to be filled. In contested elections the plurality voting standard would still apply. If the proposed majority voting standard were applied in a contested election, more persons could be elected than there are positions to be filled. In addition, there is an increased likelihood of fewer or no nominees receiving a majority vote.

The plurality voting standard would also apply if cumulative voting is in effect for a director election, for the same reasons as in the case of contested elections. In addition, cumulative voting and majority voting are procedurally and philosophically incompatible. The purpose of majority voting is to ensure that someone is elected as a director only if the holders of a majority of the shares support that election, whereas the purpose of cumulative voting is to permit minority shareholders to elect a director not supported by the holders of a majority of the shares. As discussed later in this Proxy Statement, the directors also are unanimously recommending the elimination of cumulative voting, due in part to the incompatibility of cumulative voting and the proposed majority voting standard.

Under Ohio law, shareholders must approve most amendments to the Articles and may approve amendments to the Regulations. If approved, the proposed amendments will become effective upon the filing with the Ohio Secretary of State of a certificate of amendment of the Articles. The Company would make such a filing promptly after the Annual Meeting.

Upon approval of this proposal and the filing of the certificate of amendment, the Regulations will also be amended as indicated in the attached resolution in order to make them consistent with the Articles.

In addition, after amendment of the Articles and the Regulations, the Board will amend its Corporate Governance Guidelines to conform its director resignation policy to the majority vote standard. Under Ohio law, unless provided otherwise in a company's articles or regulations, an incumbent director who is not re-elected remains in office until such director's successor is elected and qualified or until his or her earlier resignation, removal from office or death. The Board will adopt a director resignation policy to address the continuation in office of an incumbent director who does not receive a majority vote for his or her re-election. Under the amendments to the Corporate Governance Guidelines, if a director does not receive a majority vote for re-election, the director will be expected to tender his or her resignation to the Board. Within 90 days after receipt of the director's resignation, the Nominating and Corporate Governance Committee will recommend to the Board, and the Board will decide, whether to accept the resignation. The Board may consider any relevant factors in deciding whether to accept a director's resignation. The Board's decision and explanation will be promptly disclosed in a filing with the Securities and Exchange Commission.

YOUR BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE PROPOSAL TO APPROVE THE AMENDMENTS TO OUR ARTICLES AND REGULATIONS TO IMPLEMENT MARJORITY VOTING IN UNCONTESTED DIRECTOR ELECTIONS UNLESS CUMULATIVE VOTING IS IN EFFECT.

PROPOSAL - 4 AMEND THE COMPANY'S AMENDED AND RESTATED ARTICLES OF INCORPORATION AND THE COMPANY'S AMENDED AND RESTATED CODE OF REGULATIONS TO ELIMINATE CUMULATIVE VOTING

The Board is also submitting for consideration and approval by our shareholders amendments to the Company’s Articles and Regulations to eliminate cumulative voting.

The full text of the proposed amendments is attached as Appendix B to this Proxy Statement.

Under Ohio law, our shareholders currently have the right to invoke cumulative voting in any election of directors. Cumulative voting enables a shareholder to give one nominee a number of votes equal to the number of directors to be elected, multiplied by the number of shares held by the shareholder. A shareholder can also distribute the shareholder’s cumulated votes among two or more nominees, as the shareholder sees fit. Thus, with cumulative voting, shareholders can cast all of their votes “for” one nominee, instead of voting each share “for,” “against” or “abstain” for each nominee, and thereby can potentially elect a nominee that has not been supported by the holders of a majority of the shares voting in the election of directors.

The ability to elect a nominee not supported by the holders of a majority of the shares voting in the election of directors is directly contrary to the majority voting standard being proposed for adoption by the shareholders of the Company. A majority voting standard ensures directors will only be elected if they are supported by the holders of a majority of the voted shares, while cumulative voting allows a minority of shares to defeat the majority’s wishes.

In addition to the inconsistency between majority voting and cumulative voting, the process for cumulative voting imposed by Ohio law, and contained in the Company’s Regulations, can result in the holders of a minority number of shares cumulatively voting while most shareholders are unable to do so. Ohio law allows any shareholder to invoke cumulative voting by providing notice to the Company as little as 48 hours before the shareholder meeting at which the election will occur. In such an event, most shareholders are unlikely to even know that cumulative voting is in effect. Shareholders may cast their votes without knowing that cumulative voting is effective and may not have an opportunity to change their votes even though they may have voted differently had they known that both cumulative voting and a plurality voting standard would be in effect. Shareholders who invoke cumulative voting may therefore have a disproportionate effect on the results of the election of directors.

For the reasons stated above, the Board believes that the combination of adoption of the majority voting standard and the elimination of cumulative voting is in the best interests of the shareholders of the Company. In the event that the proposal to eliminate cumulative voting is not approved by the shareholders, the proposed majority voting standard will not apply at any meeting at which cumulative voting has been invoked.

The elimination of cumulative voting might, under certain circumstances, render more difficult or discourage a proxy contest, a tender offer or an assumption of control by a holder of a large block of our common shares. Neither management nor our Board is aware of any attempt by any shareholder to accumulate sufficient shares to undertake any such actions. The Board has no plans to propose or implement any further amendments to the Articles or the Regulations that would have any anti-takeover effect.

YOUR BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE PROPOSAL TO APPROVE THE AMENDMENTS TO OUR ARTICLES AND REGULATIONS TO ELIMINATE CUMULATIVE VOTING.

PROPOSAL 5 - 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 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 2016 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 2017 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 ADVISORY APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SEC.

PROPOSAL 6 - ADVISORY VOTE ON THE FREQUENCY WITH WHICH TO HOLD AN ADVISORY VOTE ON THE COMPENSATION OF THE COMPANY'S EXECUTIVE OFFICERS

The Dodd-Frank Wall Street Reform and Consumer Protection Act also provides that shareholders must be given the opportunity to indicate their preference, on a non-binding, advisory basis, at least once every six years, as to how frequently the Company should seek an advisory vote on executive compensation. By voting on this Proposal No. 6, you may indicate whether you would prefer that the Company seek future executive compensation advisory votes once every one, two or three years. You may also, if you wish, abstain from casting a vote on this proposal.

The Board has determined that an annual advisory vote on our executive compensation is currently the most appropriate alternative for the Company. Therefore our Board recommends that you vote for an annual advisory vote on executive compensation. In determining to recommend that the shareholders select a frequency of once a year, the Board considered that compensation decisions are currently made on an annual basis and therefore an annual "say-on-pay" voting aligns shareholder feedback with the Board's and management's decision making.

Shareholders may vote on their preferred voting frequency by selecting the option of One Year, Two Years, Three Years or Abstain on the proxy card when voting on this Proposal No. 6. Please note that when casting a vote on this proposal, you will not be voting to approve or disapprove the Board's recommendation.

The option of one year, two years or three years that receives the highest number of votes cast by shareholders will be the shareholder-approved frequency selection for the advisory vote on executive compensation. However, because this vote is advisory and not binding on the Board or the Company, the Board may decide that it is in the best interests of our shareholders and the Company to hold an advisory vote on executive compensation more or less frequently than the option receiving the most votes cast by our shareholders.

THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU SELECT THE OPTION OF ONE YEAR TO APPROVE AN ANNUAL ADVISORY VOTE ON THE COMPENSATION OF THE COMPANY'S EXECUTIVE OFFICERS.

ADDITIONAL INFORMATION

SHAREHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Given the Company's relatively small size, our limited 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 2018 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 10, 2017, and must otherwise comply with the requirements of Rule 14a-8 of the Exchange Act.

Our Regulations govern the submission of director nominations and other business proposals that a shareholder wishes to have considered at an annual meeting of shareholders, but which are not included in our Proxy Statement for that meeting. Under our Regulations, director nominations or other business proposals to be addressed at our next annual meeting may be made by a shareholder entitled to vote who has delivered a notice to the Secretary of the Company not later than the close of business on December 10, 2017 and not earlier than November 10, 2017. The notice must comply with the procedures and requirements of our Regulations.

These advance notice provisions in our Regulations are in addition to, and separate from, the requirements that a shareholder must meet in order to have a proposal included in the Proxy Statement under the rules of the SEC. A proxy granted by a shareholder will give discretionary authority to the proxies to vote on any matters introduced pursuant to the above advance notice provisions in our Regulations, subject to applicable SEC rules. A copy of our Regulations may be obtained from the Secretary of the Company, James F. Laird, at 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215 or by phone at (614) 255-3333.

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," generally permits 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, Secretary, at 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215, or by phone at (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 card 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

APPENDIX A

Deleted text is indicated by strikethrough, and new text is indicated by underlining.

PROPOSED AMENDMENTS TO
AMENDED AND RESTATED ARTICLES OF INCORPORATION

EIGHTH: In each election of directors, each nominee who receives a majority of the votes cast with respect to such nominee's election shall be elected as a director; provided, however, that if the election is contested or cumulative voting is in effect pursuant to the Articles and Section 1701.55 of the Ohio Revised Code, then the nominees receiving the greatest number of votes "for" the nominee's election (up to the number of directors to be elected) shall be elected. For purposes of this Article EIGHTH, "a majority of the votes cast" means that the number of shares voted "for" a nominee's election must exceed the number of shares voted "against" the nominee's election, with abstentions and broker non-votes being disregarded. An election shall be considered "contested" if the number of nominees exceeds the number of directors to be elected in such election.

* * * * * * * * *

~~EIGHTH:~~ NINTH: These amended and restated articles of incorporation supersede the articles of the corporation existing at the effective date of these amended and restated articles.

PROPOSED AMENDMENTS TO
AMENDED AND RESTATED CODE OF REGULATIONS

SECTION 1.07. VOTES REQUIRED. In each ~~At all~~ elections of directors, ~~the candidates receiving the greatest number of votes shall be elected.~~ each nominee who receives a majority of the votes cast with respect to the nominee's election shall be elected as a director; provided, however, that if the election is contested or cumulative voting is in effect pursuant to Section 1701.55 of the Ohio Revised Code and the Articles, then the nominees receiving the greatest number of votes "for" the nominee's election (up to the number of directors to be elected) shall be elected. For purposes of this Section 1.07, "a majority of the votes cast" means that the number of shares voted "for" a nominee's election must exceed the number of shares voted "against" the nominee's election, with abstentions and broker non-votes being disregarded. An election shall be considered "contested" if the number of nominees exceeds the number of directors to be elected in such election. Unless otherwise required by law, the Articles or these Regulations, any other matter submitted to the shareholders for their vote shall be decided by the vote of a majority of the shares of the corporation that are cast on the matter.

APPENDIX B

Deleted text is indicated by strikethrough, and new text is indicated by underlining.

PROPOSED AMENDMENTS TO AMENDED AND RESTATED ARTICLES OF INCORPORATION

<u>NINTH: No holder of shares of any class of the corporation shall have the right to vote cumulatively in the election of directors of the corporation.</u>

~~EIGHTH:~~ <u>TENTH</u>: These amended and restated articles of incorporation supersede the articles of the corporation existing at the effective date of these amended and restated articles.

PROPOSED AMENDMENTS TO AMENDED AND RESTATED CODE OF REGULATIONS

SECTION 1.10. CUMULATIVE VOTING. ~~If notice in writing shall be given by a shareholder to the president, a vice president or the secretary of the corporation, not less than forty-eight hours before the time fixed for holding a meeting of the shareholders for the purpose of electing directors if notice of such meeting shall have been given at least ten days prior thereto, and otherwise not less than twenty-four hours before such time, that such shareholder desires that the voting at such election shall be cumulative, and if an announcement of the giving of such notice is made upon the convening of the meeting by the chairman or secretary or by or on behalf of the shareholder giving such notice, each shareholder shall have the right to cumulate such voting power as he possesses and to give one candidate as many votes as is determined by multiplying the number of directors to be elected by the number of votes to which such shareholder is entitled, or to distribute such number of votes on the same principle among two or more candidates, as he sees fit.~~ <u>[INTENTIONALLY OMITTED].</u>

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, 2016

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	Name of each exchange on which registered
Common shares, no par value	**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	☒
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 $188.42 on June 30, 2016 on the NASDAQ Global Select Market was $581,099,527. Calculation of holdings by non-affiliates is based upon the assumption, for these purposes only, that the registrant's executive officers and directors are affiliates.

The number of shares outstanding of the issuer's common stock, as of February 23, 2017, is 3,434,871 shares.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for the 2017 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.

Diamond Hill Investment Group, Inc.
Form 10-K
For the Fiscal Year Ended December 31, 2016
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PART I

Item 1. Business

Forward-Looking Statements

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 speak only 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; 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 subsidiary, Diamond Hill Capital Management, Inc. ("DHCM"). 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, an exchange traded fund, and private investment funds. In July of 2016, the Company sold two former wholly owned operating subsidiaries, Beacon Hill Fund Services, Inc. ("BHFS"), and BHIL Distributors, Inc. ("BHIL") or collectively ("Beacon Hill"). Until its sale, Beacon Hill provided fund administration and statutory underwriting services.

The Company's primary objective is to fulfill our fiduciary duty to our clients. Our secondary objective is to grow the intrinsic value of the Company in order to achieve an adequate long-term return for our 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 intrinsic value is independent of market price and that competitive long-term returns can be achieved by identifying meaningful differences between the two. We believe we can identify those market opportunities and deliver value through our shared commitment to an intrinsic value-based investment philosophy, long-term perspective, and disciplined approach to active investment management.

Investment Process

DHCM's equity 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 we use to determine whether there is a discrepancy between the current market price and DHCM's estimate of intrinsic value. To forecast the amount and timing of cash flows, our 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 and process to the analysis of fixed income securities. Our core investment grade fixed income investment process is driven by security selection, sector allocation, yield curve positioning, and duration management in concert with the overall management of a high quality portfolio. We seek to generate excess return through the selection of undervalued securities and spread sectors that offer incremental yield and total return in comparison to a benchmark index. In selecting corporate bond investments, we focus on identifying companies with stable to improving fundamentals that are likely to meet our return objectives over the long term (five years). We believe that our team of industry specialists, and their focus on the entire capital structure of a business, often give us an information advantage over our peers.

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 intrinsic value-focused approach to investing.

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, 2016, we offered the following representative investment strategies to our clients:

1. *Small Cap* - Pursues long-term capital appreciation by investing in a portfolio of primarily small capitalization U.S. equity securities.
2. *Small-Mid Cap* - Pursues long-term capital appreciation by investing in a portfolio of primarily small and medium capitalization U.S. equity securities.
3. *Mid Cap* - Pursues long-term capital appreciation by investing in a portfolio of primarily medium capitalization U.S. equity securities.
4. *Large Cap* - Pursues long-term capital appreciation by investing in a portfolio of primarily large capitalization U.S. equity securities.
5. *Select* - Pursues long-term capital appreciation by investing in a concentrated portfolio of primarily U.S. equity securities across a broad range of market capitalizations.
6. *Long-Short* - Pursues long-term capital appreciation by investing long and selling short primarily U.S. equity securities across a broad range of market capitalizations.
7. *Research Opportunities* - Pursues long-term capital appreciation by investing long and selling short U.S. equity securities across a broad range of market capitalizations, as well as by investing up to 20% in international equity securities and up to 20% in fixed income securities.
8. *Financial Long-Short* - Pursues long-term capital appreciation by investing long and selling short primarily U.S. financial services equity securities across a broad range of market capitalizations.
9. *Valuation-Weighted 500* - Pursues long-term capital appreciation by investing in large capitalization U.S. equity securities that seek to track the price and total return of the Diamond Hill Valuation-Weighted 500 Index.
10. *Short Duration Total Return* - Pursues maximization of total return consistent with the preservation of capital by investing in high, medium, and low-grade fixed income securities.
11. *Core Bond* - Pursues maximization of total return consistent with the preservation of capital by investing in a diversified portfolio of intermediate and long-term fixed income securities.
12. *Corporate Credit* - Pursues high current income, preservation of capital, and total return over a five-year time horizon by investing primarily in corporate bonds across the credit spectrum.

13. *High Yield* - Pursues high current income with the opportunity for capital appreciation by investing primarily in below-investment grade corporate bonds.

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 AUM.

Following three volatile quarters, the U.S. equity markets rallied in the fourth quarter with all major indices posting well above average results for the year. As has been widely reported, the markets had a dramatic reaction to political events in the U.S. and abroad throughout 2016, but especially so in the fourth quarter. Financials and cyclical sectors including telecommunications, industrials, energy, and materials experienced the biggest gains post-election.

Absolute returns for all of our investment strategies with a full year of results were positive in 2016, and as of December 31, 2016, the since-inception returns for nearly all of our strategies exceeded their respective benchmark returns. Our Mid Cap, Short Duration Total Return, Core Bond, and High Yield strategies have less than a five-year track record and as always, we remain focused on five-year periods to evaluate our results.

The following is a summary of the investment returns for each of our Funds as of December 31, 2016, relative to its respective passive benchmark.

		As of December 31, 2016				
	Inception	1 Year	3 Year	5 Year	10 Year	Since Inception
Diamond Hill Small Cap Fund	**12/29/2000**	**14.45%**	**5.03%**	**12.93%**	**6.96%**	**11.02 %**
Russell 2000 Index		21.31 %	6.74 %	14.46 %	7.07 %	8.10 %
Diamond Hill Small-Mid Cap Fund	**12/30/2005**	**18.18%**	**8.73%**	**16.08%**	**9.47%**	**9.54 %**
Russell 2500 Index		17.59 %	6.93 %	14.54 %	7.69 %	8.43 %
Diamond Hill Mid Cap Fund	**12/31/2013**	**18.56%**	**8.83%**	**N/A**	**N/A**	**8.83 %**
Russell Midcap Index		13.80 %	7.92 %	N/A	N/A	7.92 %
Diamond Hill Large Cap Fund	**6/29/2001**	**14.63%**	**7.97%**	**14.13%**	**7.16%**	**8.27 %**
Russell 1000 Index		12.05 %	8.59 %	14.69 %	7.08 %	6.35 %
Diamond Hill Select Fund	**12/30/2005**	**9.62%**	**6.54%**	**14.25%**	**7.25%**	**7.85 %**
Russell 3000 Index		12.74 %	8.43 %	14.67 %	7.07 %	7.83 %
Diamond Hill Long-Short Fund	**6/30/2000**	**10.55%**	**5.44%**	**9.45%**	**4.31%**	**6.99 %**
60% Russell 1000 Index / 40% BofA ML US T-Bill 0-3 Month Index		7.32 %	5.26 %	8.77 %	4.81 %	3.86 %
Diamond Hill Research Opportunities Fund	**3/31/2009**	**9.89%**	**3.82%**	**10.73%**	**N/A**	**13.51 %**
75% Russell 3000 Index / 25% BofA ML US T-Bill 0-3 Month Index		9.60 %	6.41 %	10.96 %	N/A	12.71 %
Diamond Hill Financial Long-Short Fund	**8/1/1997**	**19.10%**	**7.27%**	**16.56%**	**2.37%**	**7.58 %**
80% Russell 3000 Financials Index / 20% BofA ML US T-Bill 0-3 Month Index		14.42 %	8.60 %	14.48 %	1.69 %	5.13 %
Diamond Hill Short Duration Total Return Fund	**7/5/2016**	**N/A**	**N/A**	**N/A**	**N/A**	**1.26 %**
Bloomberg Barclays US 1-3 Yr. Gov./Credit Index		N/A	N/A	N/A	N/A	(0.45)%
Diamond Hill Core Bond Fund	**7/5/2016**	**N/A**	**N/A**	**N/A**	**N/A**	**(2.14)%**
Bloomberg Barclays US Aggregate Index		N/A	N/A	N/A	N/A	(3.21)%
Diamond Hill Corporate Credit Fund	**9/30/2002**	**12.21%**	**5.25%**	**6.16%**	**5.80%**	**7.24 %**
BofA ML US Corporate & High Yield Index		7.97 %	4.26 %	4.84 %	5.76 %	6.23 %
Diamond Hill High Yield Fund	**12/4/2014**	**14.62%**	**N/A**	**N/A**	**N/A**	**7.12 %**
BofA ML US High Yield Index		17.49 %	N/A	N/A	N/A	5.32 %

- 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, 2016:

	Assets Under Management by Product As of December 31,				
(in millions)	2016	2015	2014	2013	2012
Proprietary funds	$ 13,618	$ 11,505	$ 9,863	$ 7,600	$ 5,251
Sub-advised funds	1,445	665	665	444	947
Institutional accounts	4,318	4,671	5,128	4,142	3,231
Total AUM	$ 19,381	$ 16,841	$ 15,656	$ 12,186	$ 9,429

	Assets Under Management by Investment Strategy As of December 31,				
(in millions)	2016	2015	2014	2013	2012
Small Cap	$ 1,843	$ 1,703	$ 1,575	$ 1,402	$ 939
Small-Mid Cap	3,388	2,088	1,295	780	364
Large Cap	8,497	7,547	7,926	6,254	5,211
All Cap Select	404	545	432	327	258
Long-Short	4,613	4,597	4,179	3,213	2,455
Corporate bonds	581	361	249	210	202
Core fixed income	237	—	—	—	—
(Less: Investments in affiliated funds)	(182)	—	—	—	—
Total AUM	$ 19,381	$ 16,841	$ 15,656	$ 12,186	$ 9,429

	Change in Assets Under Management For the Year Ended December 31,				
(in millions)	2016	2015	2014	2013	2012
AUM at beginning of the year	$ 16,841	$ 15,656	$ 12,186	$ 9,429	$ 8,671
Net cash inflows (outflows)					
proprietary funds	548	1,916	1,618	713	429
sub-advised funds	639	(6)	166	(758)	(149)
institutional accounts	(1,023)	(443)	478	(263)	(499)
	164	1,467	2,262	(308)	(219)
Net market appreciation/(depreciation) and income	2,376	(282)	1,208	3,065	977
Increase during the year	2,540	1,185	3,470	2,757	758
AUM at end of the year	$ 19,381	$ 16,841	$ 15,656	$ 12,186	$ 9,429

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. When we have determined that the size of any of our strategies hinders our ability to add value over a passive alternative, we have closed those strategies to new clients and we will continue to do so, which will impact our ability to grow AUM. We have prioritized, and will continue to prioritize, investment results over asset accumulation. Currently, the Long-Short, Small Cap, and Small-Mid Cap strategies are closed to new investors.

We estimate capacity of $25 - 35 billion for our existing equity strategies ($18.6 billion as of December 31, 2016) and capacity of at least $40 billion for our existing fixed income strategies ($0.8 billion as of December 31, 2016). Determining our AUM capacity requires evaluating each of our investment strategies and estimating individual strategy capacity, given market capitalization and concentration constraints as well as investment objectives. Total firm capacity is not simply a sum of the individual strategies and is affected by overlap between strategies. With the development of new products or strategies, our firm level capacity could increase.

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 five years ended December 31, 2016:

	AUM by Distribution Channel As of December 31,				
(in millions)	2016	2015	2014	2013	2012
Proprietary funds:					
Registered investment advisers	$ 3,508	$ 2,723	$ 2,363	$ 1,678	$ 1,258
Independent broker/dealers	2,922	2,329	1,862	1,400	917
Wirehouse broker/dealers	2,011	1,963	1,760	1,261	758
Banks	3,175	2,735	2,176	1,668	1,407
Defined contribution	1,535	1,218	1,232	1,226	739
Other	467	537	470	367	172
Total proprietary funds	13,618	11,505	9,863	7,600	5,251
Sub-advised funds	1,445	665	665	444	947
Institutional accounts:					
Institutional consultant	2,074	2,370	2,681	1,965	1,857
Financial intermediary	1,358	1,474	1,573	1,488	1,164
Direct	886	827	874	689	210
Total institutional accounts	4,318	4,671	5,128	4,142	3,231
Total AUM	$ 19,381	$ 16,841	$ 15,656	$ 12,186	$ 9,429

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 our AUM through our proprietary funds, institutional accounts, and sub-advised funds. 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

The Company provides fund administration services to the Funds. Fund administration services are broadly defined as portfolio and regulatory compliance, treasury and financial oversight, 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. Prior to the sale of Beacon Hill, the Company also provided fund administration services to other third party mutual fund companies and investment advisers.

Competition

Competition in the area of investment management is intense, and our competitors include investment management firms, broker-dealers, banks and insurance companies, some of whom offer various investment alternatives, including passive index strategies. 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 the Funds are offered for sale. 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.

The Company's trading activities for client accounts are regulated under the Securities Exchange Act of 1934 (the "Exchange Act"), including laws governing trading on inside information, market manipulation and a 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. Failure to comply with these requirements could have a material adverse effect on our business.

Contractual Relationships with the Diamond Hill Funds

The Company is highly 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 74%, 75% and 73% of our 2016, 2015 and 2014 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, 2016, the Company employed 112 full-time equivalent employees. As of December 31, 2015, the number of full-time equivalent employees was 126. The Company reduced its head count by 22 employees related to the sale of Beacon Hill, which was offset by continued growth in the number of employees at DHCM. We believe that our relationship with our employees is good. Absent the sale of Beacon Hill, our employee count has been growing over the past several years and we expect that general trend to continue.

SEC Filings

The Company maintains an Internet website at www.diamond-hill.com. Our 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 that we file or furnish 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.

ITEM 1A. Risk Factors

Our 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 the value of our common shares. Please see "Forward Looking Statements" within Item 1 of Part I of this Form 10-K. We assume no obligation to update any forward looking statements as a result of new information, future events or other factors.

<u>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.</u>

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 also 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.

<u>Our success depends on our key personnel, and our financial performance could be negatively affected by the loss of their services.</u>

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 R. H. Dillon, our Chairman and a portfolio manager, our employees do not have employment contracts and generally can terminate their employment at any time. We 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.

<u>Our AUM, which impacts revenue, is subject to significant fluctuations.</u>

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 or in the sale of investment products, or an increase in fund redemptions, generally would reduce revenue and net 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.

<u>Our 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 to new investors.</u>

Our 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 it is necessary in order to continue to produce attractive returns from a portfolio, we will consider closing the portfolio to new investors. As of December 31, 2016, we have closed three investment strategies 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.

<u>Our investment approach may underperform other investment approaches during certain market conditions.</u>

Our investment strategies are best suited for investors with long-term investment horizons. Our investment strategies may not perform well during certain periods of time, including during periods when the market is more narrowly focused on growth-oriented stocks.

Additionally, since we apply the same intrinsic value investment process across all of our strategies, utilizing the same analyst team, and due to the overlapping universes of many of our investment strategies, we could have common positions and industry concentrations across many of our strategies at the same time. As such, factors leading one of our investment strategies to underperform may lead other strategies to underperform at the same time.

<u>We are subject to substantial competition in all aspects of our business.</u>

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 our competitors have substantially greater resources than we have 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 our expenses may not decrease in proportion to the decrease in revenues. Additionally, over the past several years, investors have generally shown a preference for passive investment products, such as index and exchange traded funds, over actively managed strategies. If this trend continues, our AUM may be negatively impacted.

Market and competitive pressures in recent years have created a trend towards lower management fees in the asset management industry and there can be no assurance that we will be able to maintain our current fee structure. As a result, a shift in our AUM from higher to lower fee generating clients and strategies would result in a decrease in profitability even if our AUM increases or remains unchanged.

<u>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.</u>

Our ability to attract additional AUM is dependent on our relationship with third-party financial intermediaries. We compensate some of these intermediaries for access to investors and for various marketing services provided. These distribution sources and client bases may not continue to be accessible to us for reasonable terms, or at all. If such access is restricted or eliminated, it could have an adverse effect on our results of operations. Fees paid to financial intermediaries for investor access and marketing services have generally increased in recent years. If such fee increases continue, refusal to pay them could restrict our access to those client bases while paying them could adversely affect our profitability.

<u>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.</u>

The Company is very dependent on our contractual relationships with the Funds. If our advisory or administration agreements with the Funds were 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 74%, 75%, and 73% of our 2016, 2015 and 2014 revenues, respectively, from our advisory and administrative contracts with the Funds, including 28%, 14%, and 10% from the advisory contracts with the Diamond Hill Long-Short Fund, Large Cap Fund, Small-Mid Cap Fund and Small Cap Fund, respectively, during 2016. The loss of the Long-Short Fund, Large Cap Fund, Small-Mid 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 can be no assurance that the Funds will choose to continue their relationships with us.

Unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of our computer systems or otherwise, or other breaches in the security of our systems could severely harm our business.

As part of our business, we collect, process and transmit sensitive and confidential information about our clients and employees, as well as proprietary information about our business. We have policies and procedures pursuant to which we take numerous security measures to prevent cyber-attacks of various kinds as well as fraudulent activity by persons who have been granted access to such confidential information. Nevertheless, our systems, like all technology systems, remain vulnerable to unauthorized access, which can result in the theft or corruption of information. Computer viruses or other malicious software codes, the unauthorized intentional or inadvertent public release of information, or the use of information for illegal or harmful purposes could harm our reputation and our business. Such attacks can come from unrelated third parties through the internet, from access to hardware removed from our premises or even from employees. We are also vulnerable to attacks on, or releases of information by, third-party vendors with whom we share information or on whom we depend for services. Any security breach involving the misappropriation, loss or other unauthorized disclosure of our confidential information could result in financial loss or costs to us or damages to others. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information of others, whether by us or by our vendors, could severely damage our reputation, cause the termination of contracts with our clients or vendors, expose us to the risk of litigation and liability, disrupt our operations, impair our ability to compete and have a material adverse effect on our business, financial condition and results of operations.

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

We are 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.

Our business is subject to substantial governmental regulation, which can change frequently and may increase costs of compliance; reduce revenue; result in fines, penalties and lawsuits for noncompliance; and adversely affect our results of operations and financial condition.

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 and the Dodd-Frank Wall Street Reform and Consumer Protection Act. In addition, we are subject to significant regulation and oversight by the SEC. 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 monitor legislative, tax, regulatory, accounting, and compliance developments that could impact our business. The change in U.S. Presidential administrations may result in numerous changes in regulations that are unpredictable at this time. 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 us. 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.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The Company leases office space at one location in Columbus, Ohio.

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 such matters pending that the Company believes could have a material adverse effect on its consolidated financial statements.

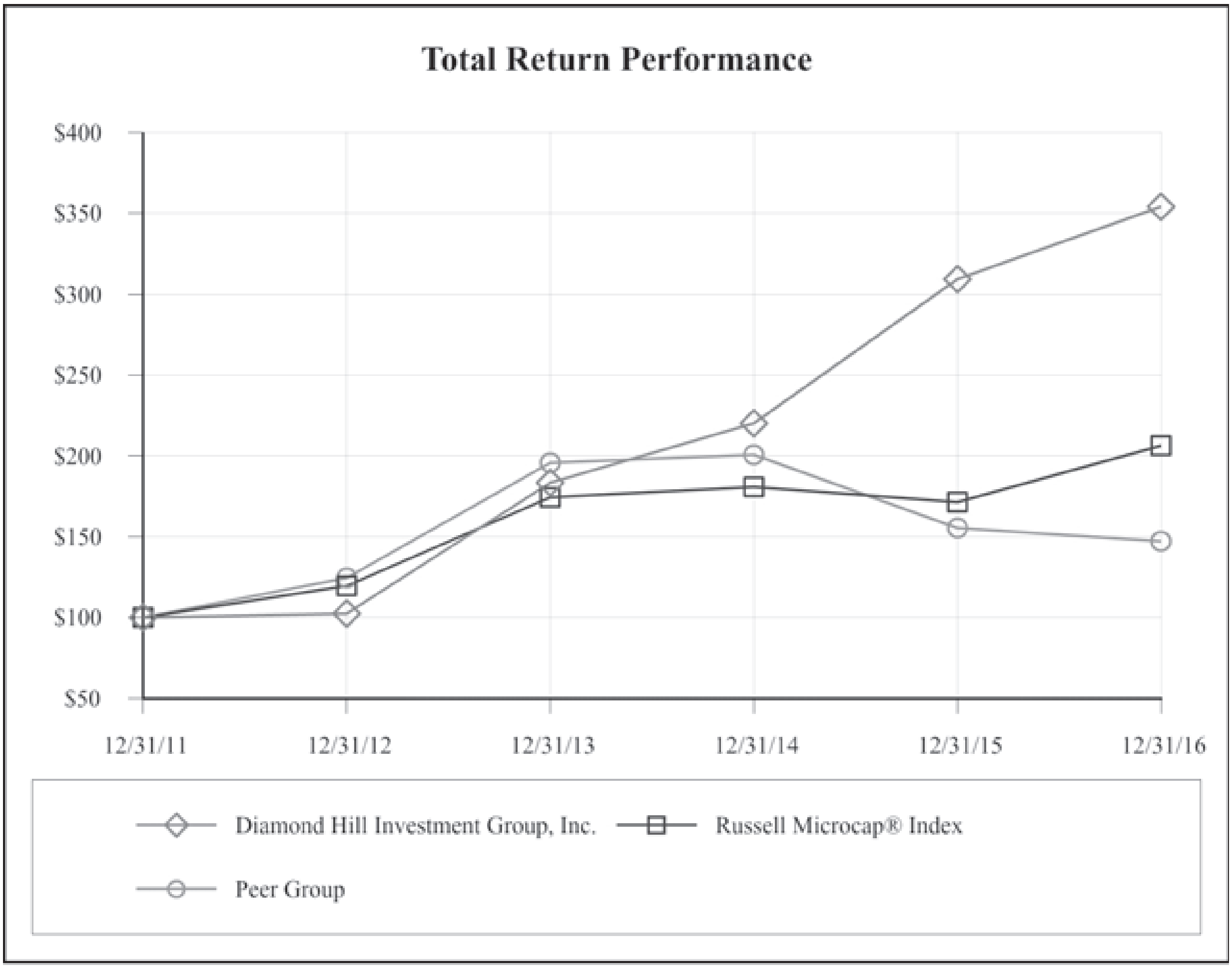
ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The following performance graph compares the total shareholder return of an investment in our common shares to that of the Russell Microcap® Index, and to a peer group index of publicly traded asset management firms for the five-year period ended on December 31, 2016. The graph assumes that the value of the investment in our common shares and each index was $100 on December 31, 2011. Total return includes reinvestment of all dividends. The Russell Microcap® 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® 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.



	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	Cumulative 5 Year Total Return
Diamond Hill Investment Group, Inc.	$100	$103	$183	$220	$309	$354	254%
Russell Microcap® Index	$100	$120	$174	$181	$171	$206	106%
Peer Group*	$100	$125	$196	$201	$155	$147	47%

* The Peer Group is based upon all asset managers with market cap of less than $5 billion excluding (i) firms whose primary business is hedge fund or private equity, and (ii) 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.; Legg Mason, Inc.; Manning & Napier, 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.

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 2016 and 2015:

	2016			2015		
	High Price	Low Price	Dividend Per Share	High Price	Low Price	Dividend Per Share
Quarter ended:						
March 31	$ 192.91	$ 154.21	$ —	$ 164.49	$ 129.76	$ —
June 30	$ 198.11	$ 167.00	$ —	$ 208.96	$ 161.92	$ —
September 30	$ 198.40	$ 179.71	$ —	$ 202.50	$ 184.20	$ —
December 31	$ 212.79	$ 172.30	$ 6.00	$ 228.79	$ 187.75	$ 5.00

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, 2016 and 2015, approximately 2,360,037 and 2,320,086, 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 quarterly dividends in the future. The approximate number of record holders of our common shares at December 31, 2016 was 204, 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 through the repurchase program during the year ended December 31, 2016. The following table sets forth information regarding our repurchase program of our common shares and shares withheld for tax payments due upon vesting of employee restricted stock units and restricted stock awards which vested during the fourth quarter of fiscal year 2016:

Period	Total Number of Shares Purchased[(a)]	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[(b)]
October 1, 2016 through October 31, 2016	—	$ —	—	318,433
November 1, 2016 through November 30, 2016	—	$ —	—	318,433
December 1, 2016 through December 31, 2016	1,783	$ 209.60	—	318,433
Total	1,783	$ 209.60	—	318,433

(a) All of the 1,783 shares of the Company's common shares purchased during the quarter ended December 31, 2016 represented shares withheld for tax payments due upon the vesting of employee Restricted Stock which vested during the quarter.

(b) The Company currently has a share repurchase program where the Board of Directors has authorized management to repurchase up to 350,000 of the Company's Common Shares in the open market and in private transactions in accordance with applicable securities laws. Our share repurchase program is not subject to an expiration date.

We sold no equity securities of the Company during 2016 that were not registered under the Securities Act of 1933.

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.

	For the Years Ended December 31,				
(in thousands, except per share data)	2016	2015	2014	2013	2012
Income Statement Data:					
Total revenues	$ 136,103	$ 124,426	$ 104,559	$ 81,432	$ 66,657
Compensation and related costs	52,265	47,951	43,892	40,852	33,868
Other expenses	20,769	17,755	13,206	9,898	8,361
Total expenses	73,034	65,706	57,098	50,750	42,229
Net operating income	63,069	58,720	47,460	30,682	24,428
Operating profit margin	46%	47%	45%	38%	37%
Net income	46,594	37,074	31,581	22,155	16,931
Net income attributable to common shareholders	46,052	37,074	31,581	22,155	16,931
Per Share Information:					
Basic earnings	$ 13.52	$ 11.31	$ 9.88	$ 7.05	$ 5.44
Diluted earnings	13.49	11.03	9.67	6.94	5.44
Cash dividend declared	6.00	5.00	4.00	3.00	8.00
Weighted Average Shares Outstanding					
Basic	3,407	3,278	3,196	3,142	3,111
Diluted	3,413	3,360	3,266	3,194	3,111

	At December 31,				
	2016	2015	2014	2013	2012
Balance Sheet Data (in thousands):					
Total assets	$ 199,718	$ 145,187	$ 107,709	$ 75,353	$ 41,236
Long-term debt	—	—	—	—	—
Shareholders equity	139,224	105,314	74,319	44,943	21,736
Book value per share	$ 40.81	$ 30.84	$ 22.40	$ 13.80	$ 6.86
Assets Under Management (in millions)	$ 19,381	$ 16,841	$ 15,656	$ 12,186	$ 9,429
Net Client Inflows (in millions)	164	1,467	2,262	(308)	(219)

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

2016 was an interesting year with market volatility driven by uncertainty around interest rates, the U.K. Brexit vote, and a U.S. presidential election, among other factors. Additionally, the ongoing discussion around active versus passive management continued in 2016. We continue to believe that Diamond Hill strategies will outperform their respective passive benchmark over a full market cycle, supported by a shared commitment to our intrinsic value-based investment philosophy, long-term perspective, disciplined approach, and alignment with our clients' interests.

We continue to expect positive but below average equity market returns over the next five years. Our conclusion is primarily based on the combination of above-average price/earnings (P/E) multiples applied to already high profit margins, which likely tempers prospective returns. Stock valuations remain historically high in part because of the current low interest rate environment. As interest rates begin to normalize and if corporate earnings growth accelerates, P/E ratios may start to decline.

As always, our focus is on valuations, which we believe are the key determinant of long-term returns. We focus on companies with good franchises and the ability to take share, selling at reasonable valuations. Our equity and fixed income investment philosophy and processes continue to be focused on individual company and security analysis. Our intrinsic value investment philosophy is shared by all of our portfolio managers and research analysts, allowing us to apply our investment discipline consistently across strategies.

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,		
	2016	2015	2014
Ending AUM (in millions)	$ 19,381	$ 16,841	$ 15,656
Average AUM (in millions)	17,780	16,415	13,847
Net cash inflows (in millions)	164	1,467	2,262
Total Revenue (in thousands)	136,103	124,426	104,559
Total Expenses (in thousands)	73,034	65,706	57,099
Average Advisory Fee Rate, excluding variable fees[a]	0.64%	0.66%	0.65%
Operating Profit Margin	46%	47%	45%

(a) Average advisory fee rates, including variable fees, were 0.68%, 0.66% and 0.65% for past three fiscal years respectively.

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 (95.9%) is valued based on readily available market quotations. AUM in our fixed income strategies (4.1%) is valued using evaluated prices from independent third-party providers. 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, 2016, 2015, and 2014:

	Assets Under Management by Product As of December 31,		
(in millions)	**2016**	**2015**	**2014**
Proprietary funds	$ 13,618	$ 11,505	$ 9,863
Sub-advised funds	1,445	665	665
Institutional accounts	4,318	4,671	5,128
Total AUM	$ 19,381	$ 16,841	$ 15,656

(in millions)	Assets Under Management by Investment Strategy As of December 31, 2016	2015	2014
Small Cap	$ 1,843	$ 1,703	$ 1,575
Small-Mid Cap	3,388	2,088	1,295
Large Cap	8,497	7,547	7,926
All Cap Select	404	545	432
Long-Short	4,613	4,597	4,179
Corporate bonds	581	361	249
Core fixed income	237	—	—
(Less: Investments in affiliated funds)	(182)	—	—
Total AUM	$ 19,381	$ 16,841	$ 15,656

(in millions)	Change in Assets Under Management For the Year Ended December 31, 2016	2015	2014
AUM at beginning of the year	$ 16,841	$ 15,656	$ 12,186
Net cash inflows (outflows)			
proprietary funds	548	1,916	1,618
sub-advised funds	639	(6)	166
institutional accounts	(1,023)	(443)	478
	164	1,467	2,262
Net market appreciation (depreciation) and income	2,376	(282)	1,208
Increase during the year	2,540	1,185	3,470
AUM at end of the year	$ 19,381	$ 16,841	$ 15,656

Consolidated Results of Operations

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

(in thousands, except per share data)	2016	2015	% Change	2015	2014	% Change
Total revenue	$ 136,103	$ 124,426	9%	$ 124,426	$ 104,559	19%
Net operating income	$ 63,069	$ 58,720	7%	$ 58,720	$ 47,460	24%
Net income attributable to common shareholders	$ 46,052	$ 37,074	24%	$ 37,074	$ 31,581	17%
Earnings per share attributable to common shareholders (Diluted)	$ 13.49	$ 11.03	22%	$ 11.03	$ 9.67	14%
Operating profit margin	46%	47%	NM	47%	45%	NM
Operating profit margin, as adjusted[(a)]	48%	47%	NM	47%	46%	NM

(a) Operating profit margin, as adjusted is a non-GAAP performance measure. See Use of Supplemental Data as Non-GAAP Performance Measure section within this report.

Year Ended December 31, 2016 compared with Year Ended December 31, 2015

The Company generated net income attributable to common shareholders of $46.1 million ($13.49 per diluted share) for the year ended December 31, 2016, compared with net income attributable to common shareholders of $37.1 million ($11.03 per diluted share) for the year ended December 31, 2015. Revenue increased $11.7 million period over period primarily due to an 8% increase in average AUM year over year, as well as $6.4 million in variable fees earned upon the termination of a variable fee agreement in 2016 versus no variable fees realized in 2015. The revenue increase was partially offset by an increase in operating expenses of $7.3 million, primarily related to increases in compensation and related expenses, general and administrative expenses, and mutual fund administration expenses. The Company had $7.5 million in investment income due to market appreciation in 2016 compared to investment losses of $0.7 million in 2015. In addition, the Company recognized a $2.7 million gain on the sale of Beacon Hill during 2016. Income tax expense increased $5.8 million from 2015 to 2016 due to the overall increase in income before taxes.

Operating profit margin decreased to 46% for 2016 from 47% for 2015. Operating profit margin, as adjusted increased to 48% for 2016 from 47% for 2015. See Use of Supplemental Data as Non-GAAP Performance Measure section within this report. 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, 2015 compared with Year Ended December 31, 2014

The Company generated net income attributable to common shareholders of $37.1 million ($11.03 per diluted share) for the year ended December 31, 2015, compared with net income attributable to common shareholders of $31.6 million ($9.67 per diluted share) for the year ended December 31, 2014. Revenue increased $19.9 million period over period due to an increase in average AUM year over year. The revenue increase was offset by an increase in operating expenses of $8.6 million, primarily related to increases in compensation and related expenses, general and administrative expenses, and sales and marketing expenses. The Company had $0.7 million in investment losses due to market depreciation in 2015 compared to investment income of $2.9 million in 2014. Income tax expense increased $2.1 million from 2014 to 2015 due to the overall increase in income before taxes.

Operating profit margin increased to 47% for 2015 from 45% for 2014. 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.

Revenue

(in thousands)	2016	2015	% Change	2015	2014	% Change
Investment advisory	$ 121,645	$ 107,916	13%	$ 107,916	$ 89,901	20%
Mutual fund administration, net	14,458	16,510	(12)%	16,510	14,658	13%
Total	136,103	124,426	9%	124,426	104,559	19%

Revenue for the Year Ended December 31, 2016 compared with Year Ended December 31, 2015

As a percent of total annual revenues for 2016 and 2015, investment advisory fees accounted for 89% and 87%, respectively, and mutual fund administration fees made up the remaining 11% and 13%, respectively.

Investment Advisory Fees. Investment advisory fees increased by $13.7 million, or 13%, from the year ended December 31, 2015 to the year ended December 31, 2016. Investment advisory fees are calculated as a percentage of the market value of client accounts at contractual fee rates that vary by investment product. The increase in investment advisory fees was driven by an increase of 8% in average AUM year over year and an increase of two basis points in the average advisory fee rate. The average advisory fee rate in 2016 and 2015 was 0.68% and 0.66%, respectively. The average advisory fee rate for 2016 included variable fees of $6.4 million earned upon the termination of a variable fee agreement during the fourth quarter. No variable fees were realized in 2015. The average advisory fee rate excluding variable fees in 2016 and 2015 was 0.64% and 0.66%, respectively. This decrease of two basis points in the advisory fee rate excluding variable fees from 2015 to 2016 was primarily due to a 0.05% reduction in the Large Cap Fund advisory fee effective January 1, 2016 and the closing of certain strategies with higher average fees to new investors. Effective April 30, 2016, the Diamond Hill Small-Mid Cap strategy was closed to new investors. As a result, the Company expects the growth in the AUM of this Fund to decline, which could negatively impact the average advisory fee rate.

Effective January 1, 2017, the Company voluntarily reduced the investment advisory fee it charges on the Mid Cap Fund, the Research Opportunities Fund, and the Financial Long-Short Fund by 0.05%. As of December 31, 2016, assets held in these funds were $58.8 million, $51.5 million and $32.4 million, respectively.

Mutual Fund Administration Fees. Mutual fund administration fees decreased by $2.1 million, or 12%, from the year ended December 31, 2015 to the year ended December 31, 2016. Mutual fund administration fees include administration fees received from the Funds, which are calculated as a percentage of average Funds' AUM, and all Beacon Hill fee revenue. The decrease in the mutual fund administration fee was primarily due to the sale of Beacon Hill effective July 31, 2016, resulting in five less months of Beacon Hill revenue recognized during 2016.

In addition, while the net mutual fund administration fee rate decreased two basis points from 0.12% for the year ended 2015 to 0.10% for the year ended 2016, the impact of this fee rate decrease was offset by a 15% increase in average Funds' AUM from $10.7 billion for the year ended 2015 to $12.3 billion for the year ended 2016. The decrease in the net administration fee rate was due to the following fee reductions that occurred during the periods indicated:

	Class A & C	Class I	Class Y
1/1/2015 - 6/30/2015	0.24%	0.24%	0.10%
7/1/2015 - 12/31/2015	0.24%	0.21%	0.10%
1/1/2016 - 7/31/2016	0.24%	0.20%	0.10%
8/1/2016 - 12/31/2016	0.24%	0.19%	0.09%

As of December 31, 2016, assets held in Class I shares and Class Y shares for the Diamond Hill Funds totaled $8.5 billion and $2.4 billion, respectively. As of December 31, 2015, assets held in Class I shares and Class Y shares for the Diamond Hill Funds totaled $6.9 billion and $1.6 billion, respectively.

Revenue for the Year Ended December 31, 2015 compared with Year Ended December 31, 2014

As a percent of total 2015 revenues, investment advisory fees accounted for 87% and mutual fund administration fees made up the remaining 13%. This compared to 86% and 14%, respectively, for 2014.

Investment Advisory Fees. Investment advisory fees increased by $18.0 million, or 20%, from the year ended December 31, 2014 to the year ended December 31, 2015. 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 primarily driven by an increase of 19% in average AUM year over year. The average advisory fee rate in 2015 and 2014 was 0.66% and 0.65%, respectively. Effective June 12, 2015, the Diamond Hill Long-Short Fund, which has a 0.90% advisory fee, was closed to new investors. In addition, effective December 31, 2015, the Diamond Hill Small Cap Fund, which has a 0.80% advisory fee, was closed to new investors. Effective January 1, 2016, the Company voluntarily reduced the investment advisory fee it charges on the Large Cap Fund and certain institutional accounts by 0.05%.

Mutual Fund Administration Fees. Mutual fund administration fees increased by $1.9 million, or 13%, from the year ended December 31, 2014 to the year ended December 31, 2015. Mutual fund administration fees include administration fees received from the 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 was due to a 24% increase in average Fund AUM which increased from $8.6 billion for the year ended December 31, 2014 to $10.7 billion for the year ended December 31, 2015. This increase was offset by a reduction in the net administration fee rate by 0.02% to 0.12% for the year ended 2015 from 0.14% for the year ended 2014. This decrease in the net administration fee rate was due to a reduction in the Funds' administration fee rate by one basis point, which was effective January 1, 2015 for assets held in Class A, C, and I shares for all Diamond Hill Funds and the further reduction in the administration fee rate charged on assets held in Class I shares from 0.24% to 0.21% effective July 1, 2015.

Expenses

(in thousands)	2016	2015	% Change	2015	2014	% Change
Compensation and related costs	$ 52,265	$ 47,951	9%	$ 47,951	$ 43,892	9%
General and administrative	12,622	10,246	23%	10,246	8,099	27%
Sales and marketing	4,263	4,179	2%	4,179	2,222	88%
Mutual fund administration	3,884	3,330	17%	3,330	2,885	15%
Total	73,034	65,706	11%	65,706	57,098	15%

Expenses for the Year Ended December 31, 2016 compared with Year Ended December 31, 2015

Compensation and Related Costs. Employee compensation and benefits increased by $4.3 million, or 9%, from the year ended December 31, 2015 to the year ended December 31, 2016, due to an increase of $1.7 million in salaries and related benefits due to an increase in staffing and merit increases and an increase of $0.5 million in incentive compensation during fiscal year 2016. 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. In addition, the Company recognized unrealized gains on deferred compensation investments which increased deferred compensation expense by $1.8 million in 2016 compared to unrealized losses on deferred compensation investments which decreased deferred compensation expense by $0.2 million in 2015.

General and Administrative. General and administrative expenses increased by $2.4 million, or 23%, from the year ended December 31, 2015 to the year ended December 31, 2016. This increase was due to a $1.4 million increase in charitable donations, a $0.4 million increase in research expenses to support our investment team, a $0.4 million increase in legal and other costs related to the sale of Beacon Hill, increased information technology expense of $0.1 million, and $0.1 million of additional depreciation expense year over year.

Sales and Marketing. Sales and marketing expenses increased by $0.1 million, or 2%, from the year ended December 31, 2015 to the year ended December 31, 2016. This increase was primarily due to additional payments made to third party intermediaries related to the sale of our proprietary funds.

Mutual Fund Administration. Mutual fund administration expenses increased by $0.6 million, or 17%, from the year ended December 31, 2015 to the year ended December 31, 2016. 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 was consistent with the 15% increase in average Funds' AUM from the year ended 2015 to the year ended 2016.

Expenses for the Year Ended December 31, 2015 compared with Year Ended December 31, 2014

Compensation and Related Costs. Employee compensation and benefits increased by $4.1 million, or 9%, from the year ended December 31, 2014 to the year ended December 31, 2015, due to an increase of $3.8 million in salaries and related benefits due to an increase in staffing and merit levels and an increase of $0.5 million in incentive compensation during fiscal year 2015 due to growth in the business, partially offset by a reduction in deferred compensation expense of $0.2 million. 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 27%, from the year ended December 31, 2014 to the year ended December 31, 2015. This increase was due to additional research expenses of $0.4 million to support our investment team, an increase in information technology expense of $0.3 million, an increase in depreciation expense of $0.4 million due to the expansion of our office space, an increase in charitable donations of $0.4 million, an increase in consulting expense of $0.5 million, and an increase in general office expenses of $0.1 million.

Sales and Marketing. Sales and marketing expenses increased by $2.0 million, or 88%, from the year ended December 31, 2014 to the year ended December 31, 2015. This increase was primarily due to additional payments made to third party intermediaries of $1.7 million and increased business development expenses of $0.3 million.

Mutual Fund Administration. Mutual fund administration expenses increased by $0.4 million, or 15%, from the year ended December 31, 2014 to the year ended December 31, 2015. 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.

Liquidity and Capital Resources

Sources of Liquidity

The Company's main source of liquidity is cash flows from operating activities which are generated from investment advisory and fund administration fees. Our investment portfolio is invested in readily marketable securities, which provide for cash liquidity, if needed. Investments in mutual funds are valued at their quoted current net asset value ("NAV"). Investments in private investment funds are valued independently using NAV as a practical expedient. Equity securities are based on readily available market quotations. Debt securities 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 receivable, and investments represented approximately 92% and 89% of total assets as of

December 31, 2016 and 2015 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 and seed capital to fund new and existing investment strategies.

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 2016 was the ninth 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 $64.00 per share from 2008 through 2016. These special dividends reduced shareholders' equity by $187.6 million over the past nine years. The 2016, 2015, and 2014 special dividend reduced shareholders' equity by $20.5 million, $17.0 million, and $13.2 million, respectively.

Working Capital

As of December 31, 2016, the Company had working capital of approximately $126.0 million, compared to $91.9 million at December 31, 2015. Working capital includes cash, securities owned by common shareholders, prepaid expenses and current receivables, net of all liabilities. On October 25, 2016, our Board of Directors declared a $6.00 per share dividend payable on December 12, 2016 to shareholders of record on December 2, 2016. The payment of the special cash dividend reduced our working capital balance by approximately $20.5 million. The Company has no debt, and we believe our available working capital is sufficient to cover current expenses and presently anticipated capital expenditures.

Below is a summary of securities owned by the Company as of December 31, 2016 and 2015.

	As of December 31,	
	2016	2015
Corporate Investments:		
Diamond Hill Core Bond Fund	$ 29,293,308	$ —
Diamond Hill Mid Cap Fund	17,754,640	10,749,860
Diamond Hill Valuation-Weighted 500 ETF	13,329,549	11,221,323
Diamond Hill Research Opportunities Fund	10,921,540	10,306,395
Diamond Hill High Yield Fund	6,210,304	—
Diamond Hill High Yield Fund, L.P.	—	9,874,099
Diamond Hill Global Fund, L.P.	1,570,965	1,410,010
Diamond Hill Short Duration Total Return Fund	20,245	—
Diamond Hill Financial Long-Short Fund	—	967,721
Total Corporate Investments	79,100,551	44,529,408
Deferred Compensation Plan Investments in the Funds	14,182,470	7,961,412
Total investments held by DHCM	93,283,021	52,490,820
Redeemable noncontrolling interest in consolidated funds	14,732,614	—
Total Investment Portfolio	$ 108,015,635	$ 52,490,820

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.

For the year ended December 31, 2016, net cash provided by operating activities totaled $20.1 million. The changes in net cash provided by operating activities were primarily driven by net income of $46.6 million and the add back of stock-based compensation of $8.2 million and depreciation of $0.7 million. These cash inflows were significantly offset by the net change in trading securities held in our Consolidated Funds underlying investment portfolios of $41.7 million and the effect of non-cash items and timing differences in the cash settlement of assets and liabilities of $6.2 million. Absent the operating cash flows of the Consolidated Funds, cash flow from operations would have been approximately $60.7 million (see "Supplemental Consolidated Cash Flow Statement" below). We expect that cash flows provided by operating activities will continue to serve as our primary source of working capital in the near future.

For the years ended December 31, 2015 and 2014, net cash provided by operating activities totaled $52.0 million, and $42.6 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 purchases and redemptions in our investment portfolio, capital expenditures and proceeds from the sale of Beacon Hill.

Cash flows used in investing activities totaled $5.7 million for the year ended December 31, 2016. The Company purchased corporate investments of $26.0 million, inclusive of $4.9 million of corporate investments into our deferred compensation plans. This cash outflow was partially offset by redemptions of corporate investments of $19.5 million and net proceeds received of $1.2 million from the sale of Beacon Hill. The Company also purchased $0.5 million of property and equipment.

Cash flows used in investing activities totaled $11.9 million for the year ended December 31, 2015. The Company purchased $22.1 million of corporate investments, inclusive of $4.3 million of purchases into our deferred compensation plans, during 2015. This cash outflow was partially offset by redemptions of corporate investments of $11.8 million. The Company also purchased $1.6 million of property and equipment related to our office space expansion.

Cash flows used in investing activities totaled $26.7 million for the year ended December 31, 2014, primarily related to purchases of $25.4 million into the Company's corporate investments, inclusive of $3.9 million of purchases into our deferred compensation plans. This cash outflow was slightly offset by redemptions of corporate investments of $0.2 million. The Company also purchased $1.5 million of property and equipment related to our office space expansion.

Cash Flows from Financing Activities

The Company's cash flows from financing activities consist primarily of the payment of special dividends, shares withheld related to employee tax withholding, excess income tax benefit from stock-based compensation, the income tax benefit from dividends paid on restricted stock, and distributions to or contributions from redeemable noncontrolling interest holders.

For the year ended December 31, 2016, net cash used by financing activities totaled $14.6 million consisting of the payment of special dividends of $20.5 million and the value of shares withheld related to employee tax withholding of $10.0 million, partially offset by net subscriptions received from redeemable noncontrolling interest holders of $9.6 million, excess income tax benefit from stock-based compensation of $4.9 million, and income tax benefit from dividends paid on restricted stock of $1.4 million.

For the years ended December 31, 2015 and 2014, net cash used by financing activities totaled $18.5 million and $13.3 million, respectively. The primary cash flows used in financing activities for the periods were special dividends of $17.0 million and $13.2 million, respectively.

Supplemental Consolidated Cash Flow Statement

On January 1, 2016, the Company implemented the new consolidation accounting guidance that resulted in the consolidation of the Company's exchange traded fund ("ETF") and one of our individual mutual funds (collectively the "Consolidated Funds") in which we have a controlling interest. Our consolidated balance sheet now reflects the investments and other assets and liabilities of the Consolidated Funds, as well as redeemable noncontrolling interests for the portion of the Consolidated Funds that are held by third party investors. Although we can redeem our net interest in the Consolidated Funds at any time, we cannot directly access or sell the assets held by the Consolidated Funds to obtain cash for general operations. Additionally, the assets of the Consolidated Funds are not available to general creditors.

The following table summarizes the condensed cash flows for the year ended December 31, 2016, that are attributable to the Diamond Hill Investment Group, Inc., the Consolidated Funds, and the related eliminations required in preparing the consolidated statements.

	Year Ended December 31, 2016			
	Cash flow attributable to Diamond Hill Investment Group, Inc.	Cash flow attributable to Consolidated Funds	Eliminations	As reported on the Consolidated Statement of Cash Flows
Cash flows from Operating Activities:				
Net Income	$ 46,051,923	$ 1,269,875	$ (727,666)	$ 46,594,132
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	712,112	—	—	712,112
Share-based compensation	8,205,084	—	—	8,205,084
Gain on sale of subsidiary	(2,675,767)	—	—	(2,675,767)
Net (gains)/losses on investments	(4,929,260)	(1,269,875)	727,666	(5,471,469)
Net change in trading securities held by Consolidated Funds	—	(41,674,992)	—	(41,674,992)
Other changes in assets and liabilities	13,378,043	1,004,603	—	14,382,646
Net cash provided by (used in) operating activities	60,742,135	(40,670,389)	—	20,071,746
Net cash provided by (used in) investing activities	(36,913,417)	—	31,183,284	(5,730,133)
Net cash provided by (used in) financing activities	(24,226,297)	40,783,067	(31,183,284)	(14,626,514)
Net change during the period	(397,579)	112,678	—	(284,901)
Cash and cash equivalents at beginning of year	57,474,777	—	—	57,474,777
Cash and cash equivalents at end of year	$ 57,077,198	$ 112,678	$ —	$ 57,189,876

Selected Quarterly Information

Our unaudited quarterly results of operations for the years ended December 31, 2016 and 2015 are summarized below:

	At or For the Quarter Ended							
	2016				2015			
(in thousands, except per share data)	12/31	09/30	06/30	03/31	12/31	09/30	06/30	03/31
Assets under management (in millions)	$ 19,381	$ 18,068	$ 17,584	$ 17,391	$ 16,841	$ 15,914	$ 16,734	$ 16,098
Total revenue[(a)]	40,039	32,937	32,669	30,458	32,302	31,424	31,382	29,318
Total operating expenses	20,512	17,799	17,970	16,753	15,039	17,283	17,260	16,124
Operating income	19,527	15,138	14,699	13,705	17,263	14,141	14,122	13,194
Investment income (loss)	2,522	3,555	693	747	973	(3,512)	457	1,345
Gain on sale of subsidiary	—	2,676	—	—	—	—	—	—
Net income	$ 13,878	$ 13,669	$ 9,767	$ 9,280	$ 11,655	$ 6,728	$ 9,178	$ 9,513
Net income attributable to common shareholders	$ 13,645	$ 13,427	$ 9,715	$ 9,265	$ 11,655	$ 6,728	$ 9,178	$ 9,513
Diluted EPS	$ 3.99	$ 3.93	$ 2.84	$ 2.73	$ 3.43	$ 1.99	$ 2.73	$ 2.89
Diluted weighted shares outstanding	3,422	3,420	3,415	3,393	3,393	3,379	3,367	3,296

(a) - Total revenue in the fourth quarter of 2016 includes variable fees of $6.4 million earned upon the termination of a variable fee agreement during the fourth quarter. No variable fees were realized in the other periods presented.

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, 2016. 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 investment related research 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 time-based criteria (see Note 6). Because these obligations are primarily of a normal recurring nature, we expect to fund them from future cash flows from operations. Deferred compensation obligations will be funded by the related deferred compensation investments currently held on our consolidated balance sheets. The information presented does not include operating expenses or capital expenditures that will be committed in the normal course of operations in 2017 and future years:

		Payments Due by Period			
(in thousands)	Total	2017	2018-2019	2020-2021	Later
Operating lease obligations	$ 4,733	$ 586	$ 1,182	$ 1,249	$ 1,716
Purchase obligations	4,143	2,395	1,747	2	—
Deferred compensation obligations	14,182	—	1,620	4,730	7,832
Total	$ 23,059	$ 2,981	$ 4,549	$ 5,981	$ 9,548

Use of Supplemental Data as Non-GAAP Performance Measures

As supplemental information, we are providing performance measures that are based on methodologies other than U.S. generally accepted accounting principles ("non-GAAP"). We believe the non-GAAP measures below are useful measures of our core business activities, are important metrics in estimating the value of an asset management business and may enable more appropriate comparison to our peers. These non-GAAP measures should not be a substitute for financial measures calculated in accordance with U.S. generally accepted accounting principles ("GAAP") and may be calculated differently by other companies. The following schedule reconciles GAAP measures to non-GAAP measures for the years ended December 31, 2016, 2015, and 2014, respectively.

	Year Ended December 31,		
(in thousands, except percentages and per share data)	2016	2015	2014
Total revenue	$ 136,103	$ 124,426	$ 104,559
Net operating income, GAAP basis	$ 63,069	$ 58,720	$ 47,460
Non-GAAP adjustments:			
Gains (losses) on deferred compensation plan investments, net[1]	1,837	(234)	533
Net operating income, as adjusted, non-GAAP basis[2]	64,906	58,486	47,993
Non-GAAP Adjustment:			
Tax provision on net operating income, as adjusted, non-GAAP basis[3]	(23,626)	(21,090)	(17,900)
Net operating income, as adjusted, after tax, non-GAAP basis[4]	$ 41,280	$ 37,396	$ 30,093
Net operating income, as adjusted after tax per diluted share, non-GAAP basis[5]	$ 12.09	$ 11.13	$ 9.21
Diluted weighted average shares outstanding, GAAP basis	3,413	3,360	3,266
Operating profit margin, GAAP basis	46%	47%	45%
Operating profit margin, as adjusted, non-GAAP basis[6]	48%	47%	46%

(1) *Gains (losses) on deferred compensation plan investments, net:* The gain (loss) on deferred compensation plan investments which increases (decreases) deferred compensation expense included in operating income is removed from operating income in the calculation because it is offset by an equal amount in investment income (loss) below net operating income on the income statement, and thus has no impact on net income attributable to the Company.

[2] *Net operating income, as adjusted:* This non-GAAP measure was calculated by taking the Company's net operating income adjusted to exclude the impact on compensation expense of gains and losses on investments in the deferred compensation plan investments.

[3] *Tax provision on net operating income, as adjusted:* This non-GAAP measure represents the tax provision excluding the impact of investment related activity and the sale of subsidiary and is calculated by applying the tax rate from the actual tax provision to net operating income, as adjusted.

[4] *Net operating income, as adjusted, after tax:* This non-GAAP measure was calculated by taking the net operating income, as adjusted less the tax provision on net operating income, as adjusted.

[5] *Net operating income, as adjusted after tax per diluted share:* This non-GAAP measure was calculated by dividing the net operating income, as adjusted after tax, by diluted weighted average shares outstanding.

[6] *Operating profit margin, as adjusted:* This non-GAAP measure was calculated by dividing the net operating income, as adjusted, by total revenue.

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.

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 Performance-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 performance 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.

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 the 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, 2016, and shows the effects of a hypothetical 10% increase and decrease in investments.

	Fair Value as of December 31, 2016	Fair Value Assuming a Hypothetical 10% Increase	Fair Value Assuming a Hypothetical 10% Decrease
Equity investments	$ 59,014,455	$ 64,915,901	$ 53,113,010
Fixed Income investments	49,001,180	53,901,298	44,101,062
Total	$ 108,015,635	$ 118,817,199	$ 97,214,072

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, 2016 and 2015, 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, 2016. 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, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, 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, 2016, 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 23, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for investments in investment funds in 2016 due to the adoption of ASU 2015-02 - Consolidation (Topic 810): Amendments to the Consolidation Analysis.

/s/ KPMG LLP

Columbus, Ohio
February 23, 2017

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, 2016, 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, 2016 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, 2016, 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, 2016 and 2015, 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, 2016, and our report dated February 23, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Columbus, Ohio
February 23, 2017

Diamond Hill Investment Group, Inc.
Consolidated Balance Sheets

	December 31,	
	2016	2015
ASSETS		
Cash and cash equivalents	$ 57,189,876	$ 57,474,777
Investment portfolio	108,015,635	52,490,820
Accounts receivable	18,605,209	18,579,302
Prepaid expenses	2,032,726	1,780,105
Income taxes receivable	1,111,890	1,402,137
Property and equipment, net of depreciation	4,025,758	4,253,361
Deferred taxes	8,736,767	9,206,079
Total assets	$ 199,717,861	$ 145,186,581
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	$ 9,787,048	$ 7,651,324
Accrued incentive compensation	22,683,500	21,984,500
Deferred compensation	14,182,470	10,236,743
Total liabilities	46,653,018	39,872,567
Redeemable noncontrolling interest	13,840,688	—
Shareholders' Equity		
Common stock, no par value 7,000,000 shares authorized; 3,411,556 issued and outstanding at December 31, 2016 (inclusive of 201,800 unvested shares); 3,414,338 issued and outstanding at December 31, 2015 (inclusive of 310,356 unvested shares)	109,293,803	102,536,527
Preferred stock, undesignated, 1,000,000 shares authorized and unissued	—	—
Deferred equity compensation	(17,728,106)	(19,294,784)
Retained Earnings	47,658,458	22,072,271
Total shareholders' equity	139,224,155	105,314,014
Total liabilities and shareholders' equity	$ 199,717,861	$ 145,186,581
Book value per share	$ 40.81	$ 30.84

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

Diamond Hill Investment Group, Inc.
Consolidated Statements of Income

	Year Ended December 31,		
	2016	2015	2014
REVENUES:			
Investment advisory	$ 121,645,149	$ 107,915,557	$ 89,900,834
Mutual fund administration, net	14,457,926	16,510,429	14,657,931
Total revenue	136,103,075	124,425,986	104,558,765
OPERATING EXPENSES:			
Compensation and related costs	52,264,843	47,951,039	43,892,336
General and administrative	12,621,831	10,245,866	8,099,410
Sales and marketing	4,263,143	4,179,064	2,222,382
Mutual fund administration	3,884,655	3,330,265	2,884,495
Total operating expenses	73,034,472	65,706,234	57,098,623
NET OPERATING INCOME	63,068,603	58,719,752	47,460,142
Investment income (loss)	7,517,398	(736,590)	2,905,794
Gain on sale of subsidiary	2,675,766	—	—
INCOME BEFORE TAXES	73,261,767	57,983,162	50,365,936
Income tax expense	(26,667,635)	(20,908,665)	(18,785,005)
NET INCOME	46,594,132	37,074,497	31,580,931
Less: Net income attributable to redeemable noncontrolling interest	(542,209)	—	—
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ 46,051,923	$ 37,074,497	$ 31,580,931
Earnings per share attributable to common shareholders			
Basic	$ 13.52	$ 11.31	$ 9.88
Diluted	$ 13.49	$ 11.03	$ 9.67
Weighted average shares outstanding			
Basic	3,407,408	3,277,920	3,196,127
Diluted	3,413,391	3,359,786	3,266,168

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

Diamond Hill Investment Group, Inc.
Consolidated Statements of Shareholders' Equity

	Shares Outstanding	Common Stock	Deferred Equity Compensation	Retained Earnings/ (Deficit)	Total	Redeemable Noncontrolling Interest
Balance at January 1, 2014	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)	—	—	—
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	$ —
Issuance of restricted stock grants	92,050	13,907,286	(13,907,286)	—	—	—
Amortization of restricted stock grants	—	—	6,906,300	—	6,906,300	—
Issuance of stock grants	27,192	3,826,458	—	—	3,826,458	—
Issuance of common stock related to 401k plan match	9,336	1,645,434	—	—	1,645,434	—
Tax benefit from dividend payments related to restricted stock grants	—	376,394	—	—	376,394	—
Net excess tax benefit from vested restricted stock grants	—	2,521,273	—	—	2,521,273	—
Shares withheld related to employee tax withholding	(28,468)	(4,323,676)	—	—	(4,323,676)	—
Forfeiture of restricted stock grants	(3,500)	(272,335)	272,335	—	—	—
Cash dividend paid of $5.00 per share	—	—	—	(17,031,890)	(17,031,890)	—
Net income	—	—	—	37,074,497	37,074,497	—
Balance at December 31, 2015	3,414,338	$ 102,536,527	$ (19,294,784)	$ 22,072,271	$105,314,014	$ —
Cumulative-effect adjustment from the adoption of ASU 2015-02 (Note 2)	—	—	—	—	—	4,031,756
Issuance of restricted stock grants	35,900	7,504,564	(7,504,564)	—	—	—
Amortization of restricted stock grants	—	—	6,466,797	—	6,466,797	—
Issuance of stock grants	21,940	3,879,431	—	—	3,879,431	—
Issuance of common stock related to 401k plan match	9,466	1,738,287	—	—	1,738,287	—
Tax benefit from dividend payments related to restricted stock grants	—	1,372,996	—	—	1,372,996	—
Net excess tax benefit from vested restricted stock grants	—	4,895,907	—	—	4,895,907	—
Shares withheld related to employee tax withholding	(53,018)	(10,029,464)	—	—	(10,029,464)	—
Forfeiture of restricted stock grants	(17,070)	(2,604,445)	2,604,445	—	—	—
Cash dividend paid of $6.00 per share	—	—	—	(20,465,736)	(20,465,736)	—
Net income	—	—	—	46,051,923	46,051,923	542,209
Net subscriptions of consolidated funds	—	—	—	—	—	9,266,723
Balance at December 31, 2016	3,411,556	$ 109,293,803	$ (17,728,106)	$ 47,658,458	$139,224,155	$ 13,840,688

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

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

	Year Ended December 31,		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 46,594,132	$ 37,074,497	$ 31,580,931
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	712,112	625,788	301,936
Share-based compensation	8,205,084	8,551,734	7,303,799
Decrease (increase) in accounts receivable	486,491	(2,065,156)	(3,511,851)
Change in current income taxes	6,559,150	316,910	(3,324,298)
Change in deferred income taxes	469,312	(3,547,087)	2,404,433
Gain on sale of subsidiary	(2,675,766)	—	—
Net (gains)/losses on investments	(5,471,469)	1,860,360	(1,517,662)
Net change in trading securities held by Consolidated Funds	(41,674,992)	—	—
Increase in accrued incentive compensation	4,578,431	5,829,708	4,127,457
Increase in deferred compensation	3,945,727	4,557,979	4,391,019
Excess income tax benefit from share-based compensation	(4,895,907)	(2,521,273)	(666,889)
Income tax benefit from dividends paid on restricted stock	(1,372,996)	(376,394)	(296,755)
Other changes in assets and liabilities	4,612,437	1,724,253	1,827,723
Net cash provided by operating activities	20,071,746	52,031,319	42,619,843
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(484,509)	(1,550,857)	(1,504,368)
Purchase of Company sponsored investments	(25,953,000)	(22,095,491)	(25,433,201)
Proceeds from sale of Company sponsored investments	19,543,607	11,770,565	249,477
Proceeds from sale of subsidiary, net of cash disposed	1,163,769	—	—
Net cash used in investing activities	(5,730,133)	(11,875,783)	(26,688,092)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Value of shares withheld related to employee tax withholding	(10,029,464)	(4,323,676)	(976,343)
Excess income tax benefit from share-based compensation	4,895,907	2,521,273	666,889
Income tax benefit from dividends paid on restricted stock	1,372,996	376,394	296,755
Payment of dividends	(20,465,736)	(17,031,890)	(13,248,884)
Net subscriptions received from (redemptions and distributions paid to) redeemable noncontrolling interest holders	9,599,783	—	—
Net cash used in financing activities	(14,626,514)	(18,457,899)	(13,261,583)
CASH AND CASH EQUIVALENTS			
Net change during the year	(284,901)	21,697,637	2,670,168
At beginning of year	57,474,777	35,777,140	33,106,972
At end of year	$ 57,189,876	$ 57,474,777	$ 35,777,140
Supplemental cash flow information:			
Income taxes paid	$ 19,639,173	$ 24,138,841	$ 19,704,817
Supplemental disclosure of non-cash transactions:			
Charitable donation of corporate investments	1,729,735	1,401,202	—
Common stock issued as incentive compensation	3,879,431	3,826,458	3,984,816
Cumulative-effect adjustment from the adoption of ASU 2015-02 (Note2)	4,031,756	—	—
Net redemption of ETF Shares for marketable securities	(244,200)	—	—

The accompanying notes are an integral part of these 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.

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"), an exchange traded fund ("ETF"), and other institutional accounts. In addition, DHCM is administrator for the Funds.

Beacon Hill Fund Services, Inc. ("BHFS") and BHIL Distributors, Inc. ("BHIL"), collectively operated as "Beacon Hill," were operating subsidiaries of the Company. On July 31, 2016, the Company sold Beacon Hill to Foreside Financial Group, LLC ("Foreside"). The entirety of Beacon Hill's business was transferred to Foreside in the sale. Prior to the sale, Beacon Hill provided compliance, treasury, underwriting and other fund administration services to investment advisers and mutual funds. See Note 11.

Note 2 Significant Accounting Policies

Basis of Presentation

The accompanying Consolidated Financial Statements of the Company have been prepared pursuant to the rules and regulations of the U. S. Securities and Exchange Commission ("SEC") and in accordance with the instructions to Form 10-K. The Company believes that the disclosures contained herein are adequate to make the information presented not misleading.

These Consolidated Financial Statements reflect, in the opinion of the Company, all material adjustments (which include only normal recurring adjustments) necessary to fairly present the Company's financial position as of December 31, 2016 and 2015, and results of operations for the years ended December 31, 2016, 2015 and 2014. The preparation of the Consolidated Financial Statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expense during the reporting period. Estimates have been prepared on the basis of the most current and best available information, but actual results could differ materially from those estimates.

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.

Reclassification

Certain prior period amounts and disclosures may have been reclassified to conform to the current period's financial presentation.

Principles of Consolidation

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

The Company holds certain investments in the Funds and the ETF we advise for general corporate investment purposes and to provide seed capital for newly formed strategies. The Funds are organized in a series fund structure in which there are multiple mutual funds within one Trust (the "Trust"). The Trust is an open-end investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The ETF we advise is an individual series of ETF Series Solutions which is also an open-end investment company registered under the 1940 Act. Each of the individual mutual funds and the ETF represent a separate share class of a legal entity organized under the Trust. As of January 1, 2016, the Company adopted *ASU 2015-02 - Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02")* and we have performed our analysis at the individual mutual fund and ETF level and have concluded the mutual funds and ETF are voting rights entities ("VREs"). The Company has concluded that the mutual funds and the ETF are VREs because the structure of the investment product is such that the shareholders are deemed to have the power through voting rights to direct the activities that most significantly impact the entity's economic performance. To the extent material, these investment products are consolidated if Company ownership, directly or indirectly, represents a majority interest (greater than 50%). The Company records redeemable noncontrolling interests in consolidated investments for which the Company's ownership is less than 100%.

We adopted ASU 2015-02 utilizing the modified retrospective transition method and have recorded a cumulative-effect adjustment to equity of $4.0 million as of January 1, 2016. Prior to the adoption of ASU 2015-02, we performed our analysis at the Trust level and concluded we did not need to consolidate the Funds or the ETF as we owned less than 1% of the voting interest in the respective Trusts. In 2016, the Company consolidated the ETF and one of our individual mutual funds (collectively the "Consolidated Funds") as our ownership was greater than 50% in each.

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”) and Diamond Hill Global Fund, L.P. ("DHGF"), each a limited partnership whose underlying assets consist primarily of marketable securities, or collectively (the "Partnerships" or “LPs”).

DHCM is wholly owned by the Company and is consolidated by us. Further, DHCM through its control of the General Partner, has the power to direct each LP’s economic activities and the right to receive investment advisory and performance incentive fees that may be significant to the LPs.

The Company concluded we did not have a variable interest in DHIP as the fees paid to the General Partner are considered to contain customary terms and conditions as found in the market for similar products and the Company has no equity ownership in DHIP.

The Company concluded DHGF was a variable interest entity ("VIE") as DHCM has disproportionately less voting interest than economic interests because the Company receives over 95% of the variability of DHGF, yet the limited partners have full power to remove the Company as the General Partner due to the existence of substantive kick-out rights. In addition, substantially all of the LPs' activities are conducted on behalf of the General Partner which has disproportionately few voting rights.

The Company concluded we are not the primary beneficiary of DHGF as we lack the power to control the entity due to the existence of single-party kick-out rights where the limited partners have the unilateral ability to remove us as the General Partner without cause. DHCM’s investment in DHGF is reported as a component of the Company’s investment portfolio, valued at DHCM’s proportionate interest in the net asset value ("NAV") of DHGF.

The LPs 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 LPs are included in the Company’s reported investment income. The Company’s exposure to loss as a result of its involvement with the LPs is limited to the amount of its investments. DHCM is not obligated to provide, and has not provided, financial or other support to the LPs, other than its investments to date and its contractually provided investment advisory responsibilities. The Company has not provided liquidity arrangements, guarantees or other commitments to support the LPs’ operations, and the LPs’ 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.

Redeemable Noncontrolling Interest

Redeemable noncontrolling interest represents third-party interests in the Consolidated Funds. This interest is redeemable at the option of the investors and therefore is not treated as permanent equity. Redeemable noncontrolling interest is remeasured at redemption value which approximates the fair value each reporting period.

Segment Information

Management has determined that the Company operates in one business segment, 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, 2016 or 2015. Accounts Receivable from the Funds were $10.4 million and $9.2 million as of December 31, 2016 and 2015, respectively.

Investments

Management determines the appropriate classification of its investments at the time of purchase and re-evaluates its determination at each reporting period.

Investments classified as trading represent Company sponsored investments in the Funds where the Company has neither control nor the ability to exercise significant influence as well as securities held in the Consolidated Funds. These investments are measured at fair value based on quoted market prices. Unrealized gains and losses are recorded as investment income (loss) in the Company's consolidated statements of income.

Investments classified as equity method investments represent Company sponsored investments in which the Company owns between 20-50% of the outstanding voting interests in the entity or when it is determined that the Company is able to exercise significant influence but not control over the investments. When using the equity method, the Company recognizes its respective share of the investee's net income or loss for the period which is recorded as investment income (loss) in the Company's consolidated statements of income.

Valuation of Investment Portfolio

Accounting Standards Codification Topic 820, Fair Value Measurement ("ASC 820") specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in the three broad levels listed below:

Level 1 - Unadjusted quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-driven valuations in which all significant inputs are observable.

Level 3 - Valuations derived from techniques in which significant inputs are unobservable.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy, in which case the Company defaults to the lowest level input that is significant to the fair value measurement in its entirety. These levels are not necessarily an indication of the risk or liquidity associated with investments. The following table summarizes the values of the Company's investments as of December 31, 2016:

	Level 1	Level 2	Level 3	Investments measured at NAV[(a)]	Total
Cash equivalents	$ 47,717,187	$ —	$ —	$ —	$ 47,717,187
Trading Investments					
Securities held in Consolidated Funds[(b)]	19,835,458	37,520,013	—	—	$ 57,355,471
Company sponsored investments	20,245	—	—	—	$ 20,245
Company sponsored equity method investments	34,886,484	—	—	1,570,965	$ 36,457,449
Deferred compensation investments	14,182,470	—	—	—	$ 14,182,470

(a) Comprised of certain investments in limited partnerships measured at fair value using NAV (or its equivalent) as a practical expedient. These investments have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

(b) Of the equity interests in the Consolidated Funds as of December 31, 2016, $42.6 million were held directly by the Company and $14.7 million were held by noncontrolling shareholders.

Level 1 investments are all registered investment companies (mutual funds) or equity securities held in the Consolidated Funds and include, as of December 31, 2016, $47.7 million of investments in money market mutual funds that the Company classifies as cash equivalents.

Level 2 investments are comprised of investments in debt securities, which are valued by an independent pricing service which uses 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 during the year ended December 31, 2016, 2015, and 2014.

Changes in fair values on the investments are recorded in the Company's consolidated statements of income as investment income (loss).

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.

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 fees. Investment advisory revenue from the Funds was $88.9 million, $80.7 million and $65.1 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Revenue Recognition – Variable Fees

The Company manages certain client accounts that provide for variable fees. These fees are calculated based on client investment results over rolling five-year periods. The Company records variable fees at the end of the contract measurement period. The following table summarizes the variable fees earned by the Company during the years ended December 31, 2016, 2015 and 2014:

For the year ended December 31,		
2016	2015	2014
$ 6,444,599	$ —	$ —

During the year ended December 31, 2016, the Company recorded $6.4 million in variable fees upon the termination of a variable fee contract that was in the final year of the five-year contract measurement period.

The table below shows AUM subject to variable fees and the amount of variable fees that would be recognized based upon current investment results as of December 31, 2016:

	As Of December 31, 2016	
	AUM subject to variable fees	Variable fees
Contractual Period Ends:		
Quarter Ended December 31, 2018	$ 94,212,727	$ —
Quarter Ended September 30, 2019	31,923,922	239,442
Quarter Ended March 31, 2020	10,426,125	—
Quarter Ended September 30, 2021	231,220,034	—
Total	$ 367,782,808	$ 239,442

The contractual end dates highlight the time remaining until the variable fees are scheduled to be earned. The amount of variable fees that would be recognized based upon investments results as of December 31, 2016 will increase or decrease based on future client investment results through the contractual period end. There can be no assurance that the unearned 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 times the average daily net assets of each respective 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 advances the upfront commissions which are paid to brokers who sell Class C shares of the Funds. 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.

Prior to the sale of Beacon Hill, the Company, through Beacon Hill, had underwriting and administrative service agreements with certain clients, including registered mutual funds. The fee arrangements varied from client to client based upon services provided and have been recorded as revenue under mutual fund administration on the Consolidated Statements of Income. Part of Beacon Hill's role as underwriter was 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 were paid to independent third parties and the remainder were retained by the Company as a reimbursement of expenses the Company had incurred. The amounts of 12b-1/service fees and commissions were determined by each mutual fund client, and Beacon Hill bore no financial risk related to these services. As a result, 12b-1/service fees and commission revenue was recorded net of the expense payments to third parties, in accordance with the appropriate accounting treatment for this agency relationship. See Note 11.

Mutual fund administration gross and net revenue are summarized below:

	Year Ended December 31,		
	2016	2015	2014
Mutual fund administration:			
Administration revenue, gross	$ 26,664,635	$ 27,042,861	$ 22,968,369
12b-1/service fees and commission revenue received from fund clients	6,360,400	11,087,978	10,514,242
12b-1/service fees and commission expense payments to third parties	(5,660,430)	(9,617,568)	(9,102,565)
Fund related expense	(12,937,067)	(12,031,353)	(9,753,359)
Revenue, net of related expenses	14,427,538	16,481,918	14,626,687
DHCM C-Share financing:			
Broker commission advance repayments	691,228	991,430	878,105
Broker commission amortization	(660,840)	(962,919)	(846,861)
Financing activity, net	30,388	28,511	31,244
Mutual fund administration revenue, net	$ 14,457,926	$ 16,510,429	$ 14,657,931

Mutual fund administrative net revenue from the Funds was $13.4 million, $14.3 million and $13.1 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Income Taxes

The Company accounts for current and deferred income taxes through an asset and liability approach. Deferred tax assets 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 federal and applicable 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 it 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 December 31, 2016, the Company had not recorded any liability for uncertain tax positions. The Company records interest and penalties, if any, within income tax expense 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 and restricted stock units. For the periods presented, the Company had unvested stock-based payment awards that contain both forfeitable and nonforfeitable rights to dividends and restricted stock units. See Note 9.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers", which supersedes existing accounting standards for revenue recognition and creates a single framework. ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This standard also specifies the accounting for certain costs to obtain or fulfill a contract with a customer. This ASU will supersede much of the existing revenue recognition guidance in GAAP and is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, and requires either a retrospective or a modified retrospective approach to adoption. The Company is currently assessing the impact of this standard on its consolidated financial statements and related disclosures, as well as the transition methods. Early application is permitted for the first interim period within annual reporting periods beginning after December 15, 2016.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting", which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the accounting for income taxes, classification of excess tax benefits on the statement of cash flows, forfeitures, statutory tax withholding requirements, classification of awards as either equity or liabilities, and classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. ASU 2016-09 is effective for our interim and annual reporting periods beginning January 1, 2017, and is to be applied using a retrospective transition method. Though permitted, we did not early adopt the guidance. The primary impact from this guidance on our consolidated financial statements will be to our tax provision line item as any excess tax benefits or deficiencies from the vesting of stock awards will now be recognized through our income tax provision as opposed to common stock. As of December 31, 2016, we had approximately 223,800 shares of restricted stock outstanding with a weighted-average grant date price of approximately $132.96. If the share price of DHIL continues to be greater than the grant date fair value of these awards throughout 2017, we could recognize additional tax benefit in our tax provision for 2017. Based on the closing price of DHIL as of December 31, 2016, this additional benefit we would record in 2017 would be approximately $2.0 million. We are continuing to evaluate additional impacts the update will have on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, "Leases", which, among other things, requires lessees to recognize most leases on-balance sheet. This will increase lessees' reported assets and liabilities - in some cases significantly. Lessor accounting remains substantially similar to current GAAP. ASU 2016-02 supersedes Topic 840, *Leases*. ASU 2016-02 is effective for annual and interim periods in fiscal years beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method for all entities. The Company is currently assessing the impact of this standard on its consolidated financial statements and related disclosures.

Note 3 Investment Portfolio

As of December 31, 2016, the Company held investments (excluding money market funds, which are included with cash and cash equivalents) worth $108.0 million. The following table summarizes the fair value of these investments as of December 31, 2016 and 2015:

	As of December 31,	
	2016	2015
Trading investments:		
Securities held in Consolidated Funds[(a)]	$ 57,355,471	$ —
Company sponsored investments[(b)]	20,245	33,245,299
Company sponsored equity method investments	36,457,449	11,284,109
Deferred compensation plan investments	14,182,470	7,961,412
Total Investment portfolio	$ 108,015,635	$ 52,490,820

(a) Of the securities held in the Consolidated Funds as of December 31, 2016, $42.6 million were held directly by the Company and $14.7 million were held by noncontrolling shareholders.
(b) Upon the adoption of ASU 2015-02 on January 1, 2016, $21.1 million of investments classified as trading investments in 2015 were reclassified to equity method investments.

The deferred compensation investments above consist of Diamond Hill Funds and relate to deferred compensation liabilities from both deferred compensation plans (refer to Note 6). As of December 31, 2016, trading investments and equity method investments held in deferred compensation investments were $9.3 million and $4.9 million, respectively. As of December 31, 2015, all deferred compensation investments were trading investments.

As of December 31, 2016, our equity method investees consisted of the Diamond Hill Mid Cap Fund, the Diamond Hill Research Opportunities Fund, the Diamond Hill High Yield Fund and DHGF and our ownership percentages in these funds were 33%, 27%, 20%, and 95% respectively. The Company's equity method investments consist of cash, marketable equity securities and fixed income securities. The Company met the significant subsidiaries test for total equity method investments as of December 31, 2016 and is required to provide the summarized financial information for all equity method investments for all periods presented. The following table includes the condensed summary financial information from the Company's equity method investments as of and for the years ended December 31, 2016, 2015 and 2014:

	As of December 31,		
	2016	2015	2014
Total assets	$ 189,819,824	$ 11,653,249	$ 15,131,651
Total liabilities	45,931,979	25,996	3,015
Net assets	143,887,845	11,627,253	15,128,636
DHCM's portion of net assets	41,338,046	11,284,109	14,652,589

	For the Year Ended December 31,		
	2016	2015	2014
Investment income	$ 3,272,972	$ 792,691	$ 128,826
Expenses	1,409,896	5,506	5,362
Net realized gains (losses)	1,981,185	1,219,565	262,754
Net change in unrealized appreciation/depreciation	10,458,073	(1,879,047)	137,935
Net income	14,302,334	127,703	524,153
DHCM's portion of net income	4,392,636	124,825	491,951

Note 4 Line of Credit

The Company has an uncommitted Line of Credit Agreement (the "Credit Agreement") with a commercial bank that matures in November of 2017 and permits the Company to borrow up to $25.0 million. Borrowings under the Credit Agreement bear interest at a rate equal to LIBOR plus 1.50%. The Company has not borrowed under the Credit Agreement as of and for the years ended December 31, 2016 and 2015. No interest is payable on the unused portion of the Credit Agreement.

The proceeds of the Credit Agreement may be used by the Company and its subsidiaries for ongoing working capital needs, to seed new investment strategies and other general corporate purposes. The line of credit agreement contains representations, warranties and covenants that are customary for agreements of this type.

Note 5 Capital Stock

Common 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 "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, 2016 or 2015.

Note 6 Compensation Plans

Equity 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, 2016, there were 407,853 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 awards under either the 2011 Equity and Cash Incentive Plan (the "2011 Plan") or the 2005 Employee and Director Equity Incentive Plan (the "2005 Plan"), although awards under these plans remain issued and outstanding. Restricted stock grants issued under the 2011 Plan and 2005 Plan, 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 Plan and 2005 Plan were recorded as compensation expense based on the grant date price.

Share-Based Payment Transactions

The Company issues restricted stock units and restricted stock awards (collectively, "Restricted Stock") under the 2014 Plan. Restricted stock units represent shares which may be issued in the future, whereas restricted stock awards represent common 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, 2016 and 2015:

	Shares	Weighted-Average Grant Date Price per Share
Outstanding Restricted Stock as of December 31, 2014	335,768	$ 79.79
Grants issued	82,050	169.50
Grants vested	(84,962)	73.47
Grants forfeited	(3,500)	77.81
Outstanding Restricted Stock as of December 31, 2015	329,356	$ 108.46
Grants issued	38,900	183.14
Grants vested	(127,386)	83.50
Grants forfeited	(17,070)	143.69
Outstanding Restricted Stock as of December 31, 2016	223,800	$ 132.96

Total deferred compensation related to unvested Restricted Stock grants was $17.7 million as of December 31, 2016. Compensation expense related to the Restricted Stock grants is calculated based upon the fair market value of the common shares on the grant date, adjusted for estimated forfeitures. The recognition of compensation expense related to deferred compensation over the remaining vesting periods, adjusted for estimated forfeitures, is as follows:

2017	2018	2019	2020	2021	Thereafter	Total
$ 6,152,255	$ 4,353,599	$ 3,617,145	$ 2,087,404	$ 662,735	$ 854,968	$ 17,728,106

Stock Grant Transactions

The following table represents stock issued as part of our incentive compensation program during the years ended December 31, 2016, 2015, and 2014:

	Shares Issued	Grant Date Value
December 31, 2016	21,940	$ 3,879,431
December 31, 2015	27,192	3,826,458
December 31, 2014	33,745	3,984,816

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 401(k) plan during the years ended December 31, 2016, 2015 and 2014:

For the year ended December 31,		
2016	2015	2014
$ 1,738,287	$ 1,645,434	$ 1,356,035

Deferred Compensation Plans

The Company offers two deferred compensation plans, the Diamond Hill Fixed Term Deferred Compensation Plan and the Diamond Hill Variable Term Deferred Compensation Plan (collectively the "Plans") to its named executive officers and certain other employees. Under the Plans, participants may elect to voluntarily defer, for a minimum of five years, certain incentive compensation, that 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 $14.2 million and $10.2 million at December 31, 2016 and 2015, respectively.

Note 7 Operating Leases

The Company currently leases office space of approximately 37,829 square feet at one location. The following table summarizes the total lease and operating expenses for the years ended December 31, 2016, 2015 and 2014:

For the year ended December 31,		
2016	2015	2014
$ 882,231	$ 928,440	$ 905,061

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

	Future Minimum Lease Payments by Year					
Total	2017	2018	2019	2020	2021	Thereafter
$ 4,732,865	$ 586,350	$ 586,350	$ 595,807	$ 624,179	$ 624,179	$ 1,716,000

In addition to the above lease payments, the Company is also responsible for normal operating expenses of the properties. Such annual operating expenses were approximately $0.4 million in each of 2016, 2015 and 2014.

Note 8 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.

The following table represents the Company's provision for income taxes:

	As of December 31,		
	2016	2015	2014
Current city income tax provision	$ 1,321,675	$ 1,245,285	$ 935,612
Current state income tax provision	642,598	335,897	429,147
Current federal income tax provision	24,234,050	22,874,571	15,015,813
Deferred federal income tax expense (benefit)	469,312	(3,547,088)	2,404,433
Provision for income taxes	$ 26,667,635	$ 20,908,665	$ 18,785,005

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

	2016	2015	2014
Income tax computed at statutory rate	$ 25,641,618	$ 20,294,107	$ 17,628,078
City and state income taxes, net of federal benefit	1,276,777	1,027,768	887,093
Other	(250,760)	(413,210)	269,834
Income tax expense	$ 26,667,635	$ 20,908,665	$ 18,785,005

Net deferred tax assets consisted of the following at December 31, 2016 and 2015:

	2016	2015
Stock-based compensation	$ 4,450,129	$ 6,077,629
Accrued compensation	7,355,744	4,724,670
Unrealized gains	(1,802,708)	(722,466)
Property and equipment	(779,391)	(815,825)
Other assets and liabilities	(487,007)	(57,929)
Net deferred tax assets	$ 8,736,767	$ 9,206,079

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, 2016, no valuation allowance was deemed necessary.

The Company's income taxes payable has been reduced by the tax benefits from equity incentive plan awards. These tax benefits are considered windfall tax benefits under ASC 718 and are recognized as an increase to common stock. For Restricted Stock, the Company receives an excess income tax benefit calculated as the tax effect of the difference between the fair market value of the stock at the time of grant and vesting. The Company also records a tax benefit on dividends paid on Restricted Stock during the vesting period. The Company had net tax benefits from equity awards of $6.3 million, $2.9 million, and $1.0 million, for the years ended December 31, 2016, 2015 and 2014, respectively.

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, 2016. 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 in all applicable state and local jurisdictions. The Company is subject to federal, state and local examinations by tax authorities for the tax years ended December 31, 2013 through 2016.

Note 9 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 awards 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,		
	2016	2015	2014
Net Income	$ 46,594,132	$ 37,074,497	$ 31,580,931
Less: Net income attributable to redeemable noncontrolling interest	(542,209)	—	—
Net income attributable to common shareholders	$ 46,051,923	$ 37,074,497	$ 31,580,931
Weighted average number of outstanding shares	3,407,408	3,277,920	3,196,127
Dilutive impact of restricted stock grants with forfeitable rights to dividends	—	74,957	67,453
Dilutive impact of restricted stock units	5,983	6,909	2,588
Weighted average number of outstanding shares - Diluted	3,413,391	3,359,786	3,266,168
Earnings per share attributable to common shareholders			
Basic	$ 13.52	$ 11.31	$ 9.88
Diluted	$ 13.49	$ 11.03	$ 9.67

Note 10 Commitments and Contingencies

The Company indemnifies its directors, officers and certain of its employees for certain liabilities that might arise from their performance of their duties to the Company. From time to time, the Company is involved in legal matters relating to claims arising in the ordinary course of business. There are currently no such matters pending that the Company believes could have a material adverse effect on its consolidated financial statements.

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 could 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.

Note 11 Sale of Beacon Hill

On June 15, 2016, the Company entered into a definitive agreement with Foreside to sell BHIL and certain assets and liabilities of BHFS to Foreside, which closed on July 31, 2016. This transaction resulted in the entirety of Beacon Hill's business being transferred to Foreside. The Company received $1.2 million in cash consideration, net of cash disposed, as well as contingent consideration with a fair value of $1.5 million in the form of a promissory note. The promissory note is included in accounts receivable on the consolidated balance sheets. The Company recorded a gain on sale of approximately $2.7 million during 2016. After transaction related costs, the overall impact of the sale, net of tax, was approximately $1.3 million to net income.

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, 2016 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, 2016 based on criteria established in *Internal Control - Integrated Framework (2013)* 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, 2016.

The Company's independent registered public accounting firm, KPMG LLP, has audited the Company's 2016 and 2015 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, 2016, 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.

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 2017 annual meeting of shareholders to be filed with the SEC pursuant to Regulation 14A of the Exchange Act (the "2017 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 2017 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, 2016:

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon the exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) 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	—	$ —	407,853 [1]

1 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 2017 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 2017 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 2017 Proxy Statement under the caption: "Proposal 2 – Ratification of the Appointment of Independent Registered Public Accounting Firm".

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	Amended and Restated 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)(iii) to Post-Effective Amendment Nos. 45 and 46 to Registration Statement on Form N-1A (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, 2016, between Diamond Hill Capital Management, Inc. and the Diamond Hill Funds. (Incorporated by reference from Exhibit 28(h)(vii) to Post-Effective Amendment Nos. 49 and 50 to Registration Statement on Form N-1A (File Nos. 333-22075 and 811-08061) filed by Diamond Hill Funds on December 7, 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*	Employment Agreement between Diamond Hill Capital Management, Inc. and Roderick H. Dillon, Jr. dated January 1, 2016. (Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on January 4, 2016; 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*	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 Acknowledgment 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.)

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) <u>Exhibits:</u> Reference is made to Item 15(a)(3) above.

(c) <u>Financial Statement Schedules:</u> None required.

SIGNATURES

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

DIAMOND HILL INVESTMENT GROUP, INC.

By: /s/ Christopher M. Bingaman

Christopher M. Bingaman, Chief Executive Officer

February 23, 2017

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/ Christopher M. Bingaman Christopher M. Bingaman	Chief Executive Officer and President	February 23, 2017
/s/ Thomas E. Line Thomas E. Line	Chief Financial Officer and Treasurer	February 23, 2017
/s/ Jeffrey J. Cook Jeffrey J. Cook	Controller	February 23, 2017
/s/ R. H. Dillon R. H. Dillon	Director	February 23, 2017
James F. Laird* James F. Laird	Secretary and a Director	February 23, 2017
Randolph J. Fortener* Randolph J. Fortener	Director	February 23, 2017
Paul A. Reeder, III* Paul A. Reeder, III	Director	February 23, 2017
Bradley C. Shoup* Bradley C. Shoup	Director	February 23, 2017
Frances A. Skinner* Frances A. Skinner	Director	February 23, 2017

* By /s/ Thomas E. Line

Thomas E. Line

Executed by Thomas E. Line

on behalf of those indicated pursuant to Powers of Attorney

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
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info@diamond-hill.com

DIAMOND HILL INVESTMENT GROUP

www.diamond-hill.com

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