



**DIAMOND
HILL** | INVESTMENT
GROUP

Diamond Hill Investment Group, Inc.

2019 Annual Report

Notice of 2020 Annual Meeting

And Proxy Statement



DIAMOND HILL INVESTMENT GROUP, INC. ANNUAL LETTER TO SHAREHOLDERS

March 13, 2020

Dear Fellow Shareholders:

Our mission at Diamond Hill is to be trusted stewards of client capital. We invest on behalf of institutions and individuals to help them achieve their investment objectives. Our business is straightforward: the firm's primary relationships are with financial intermediaries, investment consultants, and institutions, and we derive revenue from investment advisory services and mutual fund administration. Over the last 20 years, we have helped our clients reach their investment objectives by delivering returns that compare favorably with passive alternatives and our peers in many of our strategies. Superior investment results are the lifeblood of our business, but may no longer be enough to maintain our trusted status with clients. Changes in client expectations and technological innovation continue to alter competition within the investment management industry and we must adapt to evolving client needs to stay relevant. I believe the challenges presented by a shifting competitive environment bring tremendous opportunities to differentiate Diamond Hill from others in the industry.

The Rise of Passive and Capacity Management

The rise of passive investment options puts pressure on our industry in two important ways. First, it has created investment alternatives that allow clients to gain market, or beta, exposure via highly efficient and transparent vehicles. Second, because passive alternatives are much cheaper to deliver and more easily scalable, active managers must adapt. I remain outspoken in my belief that the availability of passive products has been a positive for investors, providing price discovery for market exposure and exposing those firms that have attempted to earn active fees while delivering beta to clients.

Diamond Hill's approach to fees, performance, and capacity helps insulate us from these pressures over the long term. We focus on delivering alpha to our clients at a thoughtful price that allows us to cultivate a team of great investors. We believe we can best serve clients by earning a fee that is low enough to ensure the returns we achieve benefit our clients with meaningful outperformance relative to a passive alternative, yet is high enough to build and maintain an investment team capable of achieving such results. The fee should reflect a fair split of economics between the client and the investment manager, and this remains a central tenet of our fee philosophy.

While our equity strategies have generally performed well relative to peers over the last 10 years, it has been more difficult for us to outperform core passive benchmarks (e.g. Russell 1000 Index). Over the last decade, equity market returns have exceeded historical norms, driven by the performance of rapidly growing and statistically expensive companies, making it more challenging for value-oriented managers like us to demonstrate the alpha we can add over the course of a full market cycle. We continue to believe our strategies will outperform their respective passive benchmarks, net of fees, over a complete 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.

Because of easy access to low-cost market exposure, asset flows have increasingly shifted toward passive options. This has benefitted the handful of larger firms offering these commoditized products. Fortunately, boutique active managers such as Diamond Hill have maintained market share in this environment, as there is demand for truly differentiated investment offerings from firms with a clear, consistent, and repeatable investment philosophy and process.

While size is an advantage when producing a commodity product like an index fund, it has a real cost for investors in active strategies that must be carefully managed. The business of active investment management favors scale, many times at the expense of long-term client outcomes. There is an inherent conflict of interest between active asset managers and clients: more assets under management lead to higher revenue for the manager but can negatively affect performance generated for existing clients. If portfolio managers are incentivized to grow assets under management, their time may be spent attracting new investors rather than delivering outstanding investment results for existing clients. In addition, this approach may allow the strategy to grow to a point where size begins to inhibit the ability to generate excess returns.

Capacity management is a critical component of our ability to act in the best interests of clients. Adding value for our clients is predicated on our willingness to differ meaningfully from the benchmark (and ability to be right). In order to deliver a high-conviction, truly active portfolio, we must first ensure a foundation of capacity discipline. At Diamond Hill, we seek to grow our strategies to the point where our revenue allows us to attract and retain the investment talent necessary to generate excess returns for our clients while simultaneously protecting the portfolio manager's ability to add value. We address this by giving all portfolio managers sole discretion in determining the capacity for the strategies they manage, as well as decision rights on when to soft close a strategy. Because we base incentive compensation on investment results, we motivate portfolio managers to close a strategy before it reaches a size where their ability to generate excess return is hindered. Through meaningful investment in their strategies, portfolio managers are incentivized to optimize investment results (rather than grow assets under management) because their personal investments, along with our clients' investments, also benefit from excess return generation. At Diamond Hill, we are committed to prudent capacity management that puts our clients' interests first.

Culture and Alignment of Interests

Our culture is an intangible asset that instills a sense of common purpose and direction for all associates. Our culture revolves around the fact that Diamond Hill is a fiduciary first and foremost. Clients are at the center of everything we do, and this mindset permeates the entire organization. We define success as exceeding client expectations, which includes investment results and the entire client experience. We intentionally staff our team to ensure a high level of service to our clients, from relationship management through implementation, and believe our client-centric approach is difficult for competitors to replicate. Our long-term, intrinsic value-based investment philosophy and process are foundational and have been consistently implemented since the firm's inception. All members of the investment team believe in and adhere to the same philosophy. As a result, our investment professionals are able to focus their efforts solely on finding attractive investment opportunities for clients.

Culture is a particularly powerful advantage for Diamond Hill because of the way it is structurally embedded within the firm. First, every employee is an owner. Upon hire, we give all employees shares of Diamond Hill stock that cliff-vest after five years. In addition, the firm pays a meaningful portion of annual incentive compensation in shares of Diamond Hill stock. We believe ensuring all employees are owners in the company creates a culture of common purpose, accountability, and an environment in which employees maintain an ownership mindset.

Second, our employees invest in our funds alongside our clients. Our code of ethics states all Diamond Hill employees are prohibited from investing in individual securities or competing firms' funds in segments of the market in which Diamond Hill has an investment strategy. This ensures we continue to focus on finding the best ideas for client portfolios, avoiding the conflicts of interest inherent in managing personal accounts. Our portfolio managers have significant personal investments in the strategies they manage. By investing heavily alongside our clients, we ensure portfolio managers will treat their strategies as though they are managing their own money-because they are.

To further ensure our portfolio managers constantly think about the best long-term outcomes for our clients, we link the majority of portfolio managers' annual incentive compensation to trailing five-year investment results of the strategies they manage. We believe we are one of few firms to focus only on long-term performance, with no separate consideration for one- or three-year returns in evaluating portfolio managers. This frees our team to think about making the best long-term investment decisions, rather than trying to hit a particular short-term return number.

We further differentiate our firm and strategies through explicit consideration of investment capacity across our investment capabilities. Our focus on capacity management ensures we put client outcomes first, attract and retain portfolio managers who are confident in their long-term ability to perform well, and empower them to make the decisions necessary for continued outperformance.

Our location also positively influences our culture and ability to compete. We have one office in Columbus, Ohio, which makes communication and decision making much easier relative to large firms with well-entrenched bureaucracies. Additionally, Columbus is a fast-growing city and one of the most attractive markets from a cost-of-living standpoint, which helps us build and maintain a low-fixed-cost structure, a stable team, and can be an attractive asset when recruiting new team members. Simply put, being a boutique asset manager in an attractive location allows us to focus on the things that truly matter-delivering investment performance and a great client experience.

Client Experience

Capacity discipline guides our product development efforts. By managing capacity, we protect our ability to take advantage of market inefficiencies that generate excess returns for clients. By focusing on market segments with this characteristic, we can fill unmet needs and offer differentiated investment strategies that benefit our clients' portfolios. In turn, these strategies can generate meaningful contributions to overall firm revenue, benefiting both clients and shareholders. While this approach may not move the needle for the largest firms, it is an advantage for us.

The development of our fixed-income capabilities over the last several years is a good example. We launched our High Yield strategy in 2014 because we wanted to offer a differentiated strategy with the potential to add value for clients in a segment of the market that lacks viable passive investment options. Investors cannot replicate the broad high yield fixed income market. As a result, the investable passive alternatives that are available attempt to replicate highly liquid subsets of the high yield market, which we believe are chronically overvalued because they are dominated by the companies with the most debt. By focusing our efforts on the smaller and more attractively valued portions of the market, our High Yield strategy has achieved top percentile results relative to peers over the past five years.

Changes in product distribution have also made it harder to get new investment strategies on investment platforms. Given the supply of commoditized investment offerings, these platforms are going through product rationalization initiatives and culling the number of available funds. Further, financial advisors are increasingly relying on models created by centralized decision makers, meaning that building and maintaining good relationships with those decision makers is more vital than ever. While performance used to be the primary determinant of fund flows, we have moved into an environment where great performance is necessary, but not sufficient, to generate positive flows from clients. Although most of our assets are in strategies that have strong, long-term, risk-adjusted returns and below-average fees, I believe the evolution away from performance as an investor's primary consideration is just the beginning of a shift within the industry toward a focus on the overall client experience. Many asset managers will need to step up their ability to deliver in this area, including Diamond Hill. For us, this includes finding the right clients who share our long-term investment outlook, having a fee discipline that strikes a balance between returns for clients, shareholders, and the investment manager, and improving our overall communications and interactions with clients. We have added key resources to our client team over the last few years, and we are initiating a program to upgrade our distribution technology, including new tools driven by data and analytics that will enhance our ability to deliver an exceptional client experience.

Financial Results

Diamond Hill's assets under management finished the year at \$23.4 billion, an increase of 22% from 2018, primarily reflecting strong performance in U.S. equity markets, which helped to offset some of the net outflows from our equity strategies. Assets under management rose 49% from 2014 (our typical five-year time horizon). Revenue was \$136.6 million in 2019, compared with \$145.6 million in 2018 and \$104.6 million in 2014. Lower beginning-of-year assets under management and a mix shift toward lower fee products pressured our revenue in 2019. We generated net operating income of \$47.9 million in 2019, a decrease of 33% from 2018, and our operating margin decreased in 2019 to 35% compared with 49% in 2018. Net income was \$55.0 million, up 16% from \$47.4 million in 2018,

primarily because of an increase in investment income in 2019. Earnings per share was \$15.99 in 2019, compared with \$13.48 in 2018, helped by investment income and a lower share count because of share repurchases.

Investment income can be volatile over shorter time periods, so we focus on net operating income as adjusted, after tax. This excludes the gains and losses on deferred compensation plan investments that flow through operating income as well as the impact of gains and losses on company investments in our own strategies that are included in net income. Net operating income, as adjusted, after tax, was \$40.2 million in 2019 compared with \$49.6 million in 2018^[1]. Over the past five years, net operating income, as adjusted, after tax increased 34%. Operating profit margin, as adjusted, was 39% in 2019, down from 47% in 2018 and 46% in 2014^[1]. By far our largest expense is associate compensation, including a significant amount of variable incentive compensation. A variety of factors influence incentive compensation including the long-term investment results generated for our clients, individual employee contributions, and overall company performance. We take a long-term perspective in managing our business and in determining compensation. As a result, our operating margin can fluctuate materially from year to year.

Over the last five years, important fundamental indicators of Diamond Hill's intrinsic value per share have increased. Net operating profit per share, as adjusted, increased by 27% from 2014, assets under management increased nearly 50%, and tangible book value per share more than doubled. Shareholders have derived significant value from the company's cash flows and tangible net assets, receiving special dividends in each of the past five years cumulatively totaling \$35.00 per share. However, Diamond Hill's share price has not tracked rising levels of per share operating earnings and tangible book value over the past five years, ending the period at roughly the same level as it started. It is important to note that Diamond Hill's tangible book value consists largely of cash and investments with easily identifiable market values and no debt. Over the long-term, we believe a strong balance sheet provides financial flexibility to seed new products, weather periods of market turbulence, and, ultimately, enables us to increase the future stream of operating profits available to shareholders at attractive risk-adjusted rates of return. Our tangible net assets represent a meaningful component of intrinsic value - value that has risen substantially over the past five years alongside increases in net operating earnings. Markets can be fickle over short periods of time (even five years), sharply penalizing those firms that seem out of step with the latest industry trends, regardless of the underlying business results. Over the long term, the weight of business fundamentals-operating earnings per share and tangible book value per share-will determine the appropriate level for Diamond Hill shares, so we remain focused on managing the risks and opportunities our business faces and building lasting value for shareholders.

Capital Allocation

As active investment managers focused on making long-term investments in businesses, we evaluate managements' capital allocation decisions as a central part of our investment discipline. We prefer to invest in companies that are proven to be good stewards of capital for shareholders, and we hold ourselves to the same standards. We review future capital needs and the appropriate use of any excess capital, and we focus on the optimal long-term use of capital. Historically, we have used excess capital to seed new strategies or invest in existing strategies to help them achieve critical mass. We have also paid special dividends to our shareholders, with 2019's \$9.00 per share dividend marking the 12th consecutive year with a special dividend. In September 2018, we implemented a share repurchase program authorizing the purchase of up to \$50 million of Diamond Hill stock. As of February 28, 2020, we repurchased all of the \$50 million authorized, totaling approximately 350,000 shares. Importantly, we will only engage in share repurchases when we believe the current market price is below our estimate of Diamond Hill's intrinsic value. On February 27, 2020, our Board of Directors approved a new \$50 million share repurchase plan, and we intend to continue to repurchase our shares when they trade at a meaningful discount to our estimate of the firm's intrinsic value.

A Note on the Current Market Environment

As this letter goes to shareholders, we are experiencing historic broad market volatility as a result of uncertainty surrounding the potential effect of COVID-19 on the global economy. We are attempting to minimize the risks posed by the virus to our firm, our associates, and our clients' assets. We have also performed due diligence on our critical third-party software and service providers, and are confident we can seamlessly provide an uninterrupted, high-quality client experience while helping to safeguard our associates' safety.

With respect to our clients' assets, we view risk as the permanent loss of capital, rather than short-term volatility of returns as measured by standard deviation. Our investment team remains focused on maintaining a long-term mindset and protecting our clients from a permanent loss of capital, and we are using this historic volatility to optimize our portfolios. We regularly communicate with clients, emphasizing that our long-term, value-focused approach to investing leads us to companies that have business models and balance sheets capable of weathering near-term shocks—even potentially leveraging such opportunities to position our portfolios more competitively for the future. While it is difficult to forecast how this issue ultimately will affect the economy and our business, we will continue to monitor the situation closely.

Summary

When I first learned about the opportunity to join Diamond Hill, I had never been to Columbus, Ohio, and knew little about the firm. After becoming familiar with the company and its history, meeting with the Board and various team members during the interview process, and visiting this wonderful and fast-growing city, I knew it was an incredible opportunity: an active asset manager with true capacity discipline that made alignment of interests with its clients a top priority, nestled in a city that encourages an independent and long-term mindset. During the interview process, I was struck by the remarkable consistency with which associates talked about their desire to put clients first. After joining the firm and observing what goes on behind the scenes, it's clear that the desire to help clients achieve their investment objectives is a fundamental part of the firm's DNA and it truly is what motivates us on a daily basis. Diamond Hill has several advantages that will be instrumental in positioning us to overcome the challenges our industry faces, ensure the long-term success of the firm, and continue to grow the company's intrinsic value over time.

Sincerely,

A handwritten signature in black ink that reads "Heather Brilliant". The signature is fluid and cursive, with the first name "Heather" being more prominent than the last name "Brilliant".

Heather Brilliant
Chief Executive Officer

^[1] Net operating income, as adjusted, after tax, operating profit margin, as adjusted, and net operating income, as adjusted after tax per diluted share, are non-GAAP performance measures. Reconciliations to GAAP measures are provided in the following Annex.

ANNEX - RECONCILIATION OF NON-GAAP 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, 2019, 2018, 2017, 2016, 2015 and 2014 respectively.

(in thousands, except percentages and per share data)	Year Ended December 31,					
	2019	2018	2017	2016	2015	2014
Total revenue	\$ 136,624	\$ 145,628	\$ 145,202	\$ 136,103	\$ 124,426	\$ 104,559
Net operating income, GAAP basis	\$ 47,935	\$ 71,256	\$ 67,001	\$ 63,069	\$ 58,720	\$ 47,460
Non-GAAP adjustments:						
Gains (losses) on deferred compensation plan investments, net ⁽¹⁾	5,977	(2,122)	2,382	1,837	(234)	533
Net operating income, as adjusted, non-GAAP basis ⁽²⁾	53,912	69,134	69,383	64,906	58,486	47,993
Non-GAAP adjustments:						
Tax provision on net operating income, as adjusted, non-GAAP basis ⁽³⁾	(13,680)	(19,542)	(25,704)	(23,626)	(21,090)	(17,900)
Net operating income, as adjusted, after tax, non-GAAP basis ⁽⁴⁾	\$ 40,232	\$ 49,592	\$ 43,679	\$ 41,280	\$ 37,396	\$ 30,093
Net operating income, as adjusted after tax per diluted share, non-GAAP basis ⁽⁵⁾	\$ 11.71	\$ 14.11	\$ 12.65	\$ 12.09	\$ 11.13	\$ 9.21
Diluted weighted average shares outstanding, GAAP basis	3,437	3,515	3,452	3,413	3,360	3,266
Operating profit margin, GAAP basis	35%	49%	46%	46%	47%	45%
Operating profit margin, as adjusted, non-GAAP basis ⁽⁶⁾	39%	47%	48%	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 represents 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.

⁽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 unconsolidated effective tax rate to net operating income, as adjusted.

⁽⁴⁾ *Net operating income, as adjusted, after tax*: This non-GAAP measure deducts from the net operating income, as adjusted, 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.



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

March 13, 2020

Dear Shareholders:

We cordially invite you to attend the 2020 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 Tuesday, April 28, 2020, 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,

A handwritten signature in black ink that reads "Heather E. Brilliant". The signature is written in a cursive, flowing style.

Heather E. Brilliant
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 28, 2020**

Notice is hereby given that the 2020 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 Tuesday, April 28, 2020, 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 2021 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, 2020;
- 3) a non-binding, advisory resolution to approve the compensation of the Company’s named executive officers; and
- 4) such other business as may properly come before the Annual Meeting or any adjournment thereof.

Action may be taken on the foregoing proposals at the Annual Meeting or at any adjournment of the Annual Meeting. The Board of Directors has fixed the close of business on March 2, 2020, as the record date for determining 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 voting 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 CARD 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,

A handwritten signature in black ink, appearing to read "G. Young", is written over a horizontal line.

Gary R. Young, Secretary

Columbus, Ohio
March 13, 2020

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 28, 2020:
The Proxy Statement and the Company’s 2019 Annual Report on Form 10-K are available without charge at the following location:
<https://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 28, 2020**

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 2020 Annual Meeting of Shareholders (the “Annual Meeting”) to be held at The Eye Center of Columbus, 262 Neil Ave., Columbus, Ohio 43215, at 10:00 a.m., Eastern Daylight Saving Time, on April 28, 2020, 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 13, 2020. Only our shareholders of record at the close of business on March 2, 2020, 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 2021 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, 2020;
- 3) to consider and vote upon a non-binding, advisory resolution to approve the compensation of our named executive officers; and
- 4) to transact such other business that may properly come before the Annual Meeting or any adjournment thereof.

Those common shares represented by (i) properly signed proxy cards received by us prior to the Annual Meeting or (ii) properly authenticated voting instructions recorded electronically over the Internet or by telephone prior to 7:00 p.m., Eastern Daylight Saving Time on April 27, 2020 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 Tuesday, April 28, 2020, 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 2021 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, 2020; and
- a non-binding, advisory resolution to approve the compensation of our named executive officers.

Q: What do I need to do now?

A: After carefully reading this Proxy Statement, indicate on the enclosed proxy card how you want your shares to be voted and sign and mail the proxy card promptly in the enclosed envelope. Alternatively, you may vote by phone or over the Internet in accordance with the instructions on your proxy card. The deadline for transmitting voting instructions over the Internet or telephonically is 7:00 p.m. Eastern Daylight Saving Time on Monday, April 27, 2020. 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 of our shares, 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 voting 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 has 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 2020 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 Gary R. Young, 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 27, 2020; 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 Gary R. Young, Secretary, at (614) 255-3333 or visit the Company's website, <https://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 Gary R. Young, the Company's Secretary, 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 2, 2020, the record date, will be entitled to vote at the Annual Meeting. As of the record date, there were 3,289,865 of our common shares outstanding and entitled to be voted 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

A shareholder may cast one vote for each outstanding share held by the shareholder 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.

Director elections. Votes that shareholders cast "FOR" a director-nominee must exceed the votes that shareholders cast "AGAINST" a director-nominee for the individual to be elected. Please also see the discussion of our "Majority Voting" provisions within Proposal 1.

Ratification of selection of KPMG. The affirmative vote of the holders of a majority of the shares cast on the proposal is required to ratify the selection of KPMG as the Company's independent registered public accounting firm for fiscal year 2020.

Advisory approval of named executive officer compensation. The affirmative vote of the holders of a majority of the shares cast on the proposal is required for non-binding shareholder advisory approval of the compensation of the Company's named executive officers.

Effect of broker non-votes and abstentions. Under the applicable regulations of the Securities and Exchange Commission (the "SEC") and the rules of 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. 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, the ratification of the appointment of KPMG or the advisory approval of named executive officer compensation.

Quorum

Business can be conducted at the Annual Meeting only if a quorum, consisting of the holders of at least 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, proxy card 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. 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 does 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, 2019 (the "Form 10-K"), 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 these shareholders to the contrary. However, each shareholder will continue to receive a separate proxy card. 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 Gary R. Young, Secretary, at 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215 or by phone at (614) 255-3333. Additionally, this Proxy Statement and our Form 10-K are available on the internet free of charge at: <https://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 2, 2020, by (a) all persons known by us to beneficially own 5% or more of the Company's outstanding shares, (b) each director of the Company, (c) our named executive officers, and (d) all of our executive officers, directors, and director 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	42,480	(2) (3) 1.3%
Heather E. Brilliant	24,390	(2) *
Randolph J. Fortener	9,600	*
James F. Laird	27,500	*
Thomas E. Line	19,428	(2) *
Paula R. Meyer	8,000	*
Paul A. Reeder III	8,000	*
Bradley C. Shoup	7,200	*
Nicole R. St. Pierre	8,000	*
Directors, nominees, and executive officers as a group (8 persons)	112,118	3.4%
All other employees of the Company (122 persons)	458,291	(4) 13.9%
<u>5% Beneficial Owners</u>		
BlackRock, Inc. ⁽⁵⁾	258,076	7.8%
Wells Fargo & Company ⁽⁶⁾	182,351	5.5%

- (1) Beneficial ownership of less than 1% is represented by an asterisk (*). The percent of class is based upon the number of common shares beneficially owned by the named person divided by 3,289,865, which was the total number of shares that were issued and outstanding as of March 2, 2020.
- (2) Includes 2,706, 183, and 1,027 shares for Mr. Bingaman, Ms. Brilliant, and Mr. Line, respectively, that are held in the Diamond Hill Investment Group 401(k) Plan and Trust (the "401(k) Plan"), over which the Trustee of the 401(k) Plan possesses the voting power.
- (3) Mr. Bingaman stepped down from his position as Chief Executive Officer of the Company effective September 3, 2019. He remains employed with the Company as a portfolio manager.
- (4) Includes all other employees of the Company not listed above as of March 2, 2020. Each employee has sole voting power over the shares of such employee reflected in the table, except for the 52,165 shares that are held in the 401(k) Plan, over which the Trustee of the 401(k) Plan possess 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.
- (5) Based on information contained in Schedule 13G/A filed with the SEC on February 5, 2020, by BlackRock, Inc. to report beneficial ownership by its subsidiaries (BlackRock Advisors, LLC, BlackRock Investment Management (UK) Limited, BlackRock Asset Management Canada Limited, BlackRock (Netherlands) B.V., BlackRock Fund Advisors, BlackRock Asset Management Ireland Limited, BlackRock Institutional Trust Company, N.A., BlackRock Financial Management, Inc., BlackRock Japan Co., Ltd., BlackRock Asset Management Schweiz AG, and BlackRock Investment Management, LLC) of shares as of December 31, 2019. This Schedule 13G/A reported that BlackRock, Inc., through its subsidiaries, had sole voting power over 252,268 shares and sole dispositive power over 258,076 shares. The address for BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055.
- (6) Based on information contained in Schedule 13G/A filed with the SEC on February 4, 2020, by Wells Fargo & Company ("Wells") to report beneficial ownership by its subsidiaries (Wells Fargo Clearing Services, LLC, Wells Fargo Advisors Financial Network, LLC, Wells Fargo Funds Management, LLC, Wells Capital Management Inc., and Wells Fargo Bank, N.A.) of shares as of December 31, 2019. This Schedule 13G/A reported that Wells, through its subsidiaries, had sole voting power and dispositive power over 3,869 shares, shared voting power over 101,752 shares, and shared dispositive power over 178,482 shares. The address for Wells is 420 Montgomery Street, San Francisco, CA 94163.

DELINQUENT SECTION 16(A) REPORTS

We believe that all filing requirements to comply with Section 16(a) of the Securities Exchange Act of 1934 were met during the fiscal year ended December 31, 2019 and through the date of this Proxy Statement.

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.

On February 27, 2020, Paul A. Reeder, a director, notified the Company that he will be retiring from the Board at the conclusion of his current term which ends in conjunction with the Annual Meeting. In connection with his retirement, he requested that the Board not nominate him for re-election at the Annual Meeting.

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.

Majority Voting

In an uncontested election, a nominee will not be elected unless he or she receives more “FOR” votes than “AGAINST” votes. In addition, pursuant to the Board's Corporate Governance Guidelines, any director who fails to obtain the required vote in an uncontested election will be expected to promptly submit his or her resignation to the Board. The Board will then decide, after considering the Nominating and Governance Committee's recommendation, whether to accept or decline the resignation, or decline the resignation with conditions. The Board will make any such decision within 90 days following the date of the Annual Meeting of Shareholders at which such uncontested election occurred. Plurality voting will apply to any contested elections.

Director Independence

The Board has determined that each of Randy J. Fortener, James F. Laird, Paula R. Meyer, Bradley C Shoup and Nicole R. St. Pierre qualifies as independent under the rules and independence standards of The NASDAQ Stock Market (“NASDAQ”), as well as applicable SEC requirements. The Board has determined that Ms. Brilliant is not independent. 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 such nominee's name below.

Heather E. Brilliant, CFA, age 43, was appointed as a director, President and Chief Executive Officer (“CEO”) of the Company effective September 3, 2019. Ms. Brilliant previously served as Chief Executive Officer, Americas with First State Investments from 2017 until joining the Company. Prior to that role, she spent almost 14 years with Morningstar where she served as Global Head of Equity & Credit Research before advancing to Chief Executive Officer, Morningstar Australasia. Earlier in her career, she held several roles analyzing both credit and equity at firms including Driehaus Capital Management, Coghill Capital Management, and Bank of America.

Ms. Brilliant received her Bachelor's degree from Northwestern University and a MBA from the University of Chicago. Ms. Brilliant also holds the Chartered Financial Analyst designation and is past chair and current member of the CFA Institute Board of Governors.

Ms. Brilliant's qualifications to serve on the Board include her prior experience as CEO of a division of an investment firm as well as her in depth knowledge of the investment management industry through her more than 20 years of experience as an investment professional.

Randolph J. Fortener, age 66, has been a director of the Company since 2013, is the Chair of the Audit Committee, currently serves on the Nominating and Governance Committee and the Compensation Committee, and has been determined by the Board to be 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 its CEO, Mr. Fortener directs all investment and acquisition activity for Cozzins Road Capital. 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 40 years of business experience, with an emphasis on corporate acquisitions and investments.

Mr. Fortener received a Bachelor of Science in accounting from The University of Findlay and his 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 63, has been a director of the Company since 2011 and Chair of the Board since 2019. Mr. Laird also serves on the Compensation Committee, Audit Committee and Nominating and Governance Committee, and has been determined by the Board to be an audit committee financial expert, as defined by the SEC. Mr. Laird is currently retired, and served as CFO and Treasurer of the Company from 2001 until his retirement from the Company on December 31, 2014 and served as Secretary of the Company from 2001 to 2017. He also served as President of Diamond Hill Funds from 2001 to 2014. Mr. Laird has over 30 years of experience in the investment management industry.

Mr. Laird received his Bachelor of Science 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 30 years of experience in the financial, operational, administrative, and distribution aspects of the investment management industry.

Paula R. Meyer, age 65, was appointed as a director of the Company on February 20, 2019 and currently serves on the Audit Committee, Nominating and Governance Committee, and the Compensation Committee. Ms. Meyer is currently a non-executive director. She has worked in variety of roles within the investment management industry most recently serving as President of RiverSource Funds, the proprietary fund complex of Ameriprise Financial, Inc. from 1998 to 2006. She currently serves as a director for Mutual of Omaha and First Command Financial Services. She also served as a director of the Federal Home Loan Bank of Des Moines from 2007 to 2016 and on the Investment Company Institute's Board of Governors from 2000 to 2006.

Ms. Meyer received her Bachelor of Arts from Luther College, an MBA from the University of Pennsylvania, Wharton School of Business, and is a National Association of Corporate Directors Board Leadership Fellow. She has also been awarded the Certificate in Cybersecurity Oversight from the Software Engineering Institute in association with Carnegie Mellon University (2020).

Ms. Meyer's qualifications to serve on the Board include her over 25 years of leadership experience in the financial services and mutual fund industries as well as her significant governance experience as a board member on numerous for-profit and non-profit companies.

Bradley C. Shoup, age 61, has been a director of the Company since 2012, is the chair of the Nominating and Governance Committee, currently serves on the Audit Committee and Compensation Committee, and has been determined by the Board to be an audit committee financial expert as defined by the SEC. Mr. Shoup has been Chief Financial Officer of NueVida Resources LLC, a company focused on resource development in major shale basins, since 2017. 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 Bachelor of Science 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 his over 30 years of experience in corporate finance and the investment management industry.

Nicole R. St. Pierre, age 47, was appointed as a director of the Company on February 20, 2019, is the Chair of the Compensation Committee, and currently serves on the Audit Committee and Nominating and Governance Committee. Ms. St. Pierre is currently a non-executive director. She has served in a variety of roles within the Asset Management group at J.P. Morgan from 1994 to 2018, most recently as Managing Director; Head of Client Services and Business Platform & Americas Regional Lead.

Ms. St. Pierre received her Bachelor of Science in Marketing from Rutgers University and an MBA from Fordham University. She has also been awarded the Certificate in Cybersecurity Oversight from the Software Engineering Institute in association with Carnegie Mellon University (2020).

Ms. St. Pierre's qualifications to serve on the Board include her over 20 years of experience in the investment management industry.

THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF HEATHER E. BRILLIANT, RANDY J. FORTENER, JAMES F. LAIRD, PAULA R. MEYER, BRADLEY C. SHOUP, AND NICOLE R. ST. PIERRE 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, 2019, and each director attended at least 75% of all regular Board and applicable committee meetings. Consistent with our Corporate Governance Guidelines, the directors met in executive session at each regularly scheduled Board meeting in 2019. Our Corporate Governance Guidelines provide that all directors are expected to attend each annual meeting of shareholders. All of our directors who were standing for re-election attended our 2019 Annual Meeting.

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.

The Board has adopted a Code of Business Conduct and 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. 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.

Personal Trading and Hedging Policy

We have established a policy prohibiting our employees and directors 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 (Chair), Mr. Laird, Ms. Meyer, Mr. Reeder, Mr. Shoup, and Ms. St. Pierre serve on the Audit Committee, which met four times during 2019. 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. Laird, Mr. Reeder, and Mr. Shoup 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. Laird, Ms. Meyer, Mr. Reeder, Mr. Shoup, and Ms. St. Pierre (Chair) serve on the Compensation Committee, which met three times during 2019. 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 has delegated

to management the ability to make stock grants to our non-executive 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. Laird, Ms. Meyer, Mr. Reeder, Mr. Shoup (Chair), and Ms. St. Pierre serve on the Nominating and Governance Committee, which met twice during 2019. The Board has determined that each of these committee members meets the independence criteria of NASDAQ. Following the Annual Meeting of Shareholders, Ms. Meyer will succeed Mr. Shoup as Chair of the Nominating and Governance Committee.

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 Nominating and Governance 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 2019.

<i>Director⁽¹⁾</i>	<i>Audit</i>	<i>Compensation</i>	<i>Nominating and Governance</i>
Heather E. Brilliant	—	—	—
Randolph J. Fortener	Chair	Member	Member
James F. Laird	Member	Member	Member
Paula R. Meyer	Member	Member	Member
Paul A. Reeder, III	Member	Member	Member
Bradley C. Shoup	Member	Member	Chair
Nicole R. St. Pierre	Member	Chair	Member
Number of Meetings in 2019	4	3	2

⁽¹⁾ From January 1, 2019 through the conclusion of his service as a director on September 3, 2019, Christopher M. Bingaman did not serve on any committees of the Board.

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 one-time restricted stock awards are intended to compensate the directors for a long period of time and are intended to fully compensate directors for the entirety of their service as directors and as members of committees of the Board. Restricted stock awards are granted upon appointment to the Board and at the discretion of the Board upon recommendation by the Compensation Committee and are subject to such terms and conditions as may be established by the Compensation Committee consistent with terms of the 2014 Plan. The Board may, on occasion, pay our directors additional cash fees in extraordinary circumstances. In 2019, we paid certain of our directors additional cash compensation for their significant involvement in our CEO search process. The following table sets forth information regarding the compensation earned by, or paid to, directors who served on our Board in 2019.

2019 Director Compensation⁽¹⁾

Name	Fees Earned or Paid in Cash ⁽²⁾	Stock Awards ⁽³⁾	All Other Compensation	Total
Heather E. Brilliant ⁽⁴⁾	\$ —	\$ —	\$ —	\$ —
Randolph J. Fortener	\$ 30,000	\$ —	\$ —	\$ 30,000
James F. Laird	\$ 30,000	\$ —	\$ —	\$ 30,000
Paula R. Meyer	\$ 60,000	\$ 1,245,600	\$ —	\$ 1,305,600
Paul A. Reeder, III	\$ —	\$ —	\$ —	\$ —
Bradley C. Shoup	\$ —	\$ —	\$ —	\$ —
Nicole R. St. Pierre	\$ 60,000	\$ 1,245,600	\$ —	\$ 1,305,600
Christopher M. Bingaman ⁽⁴⁾	\$ —	\$ —	\$ —	\$ —
R. H. Dillon ⁽⁵⁾	\$ —	\$ —	\$ —	\$ —

⁽¹⁾ Omits those columns where no compensation was awarded or earned.

⁽²⁾ Represents compensation related to the director's participation in the CEO search, evaluation, and selection process.

⁽³⁾ Represents the full grant date fair value of the stock awards granted by the Board under the 2014 Plan on February 20, 2019 to Ms. Meyer and Ms. St. Pierre. Amounts were computed by multiplying the total shares granted by the closing price of the shares on the grant date. Awards are intended to represent their compensation as a director of the Company for the period from February 20, 2019 through their scheduled retirement on April 30, 2029.

⁽⁴⁾ Mr. Bingaman resigned from the Board in conjunction with Ms. Brilliant's appointment to the Board effective September 3, 2019.

⁽⁵⁾ Mr. Dillon did not stand for re-election and retired from the Board on May 1, 2019 in conjunction with the Company's 2019 Annual Shareholder Meeting.

Outstanding Stock Grants to Directors

The below table shows the amount of unvested restricted stock awards outstanding to directors as of December 31, 2019 and the service period covered by the grant. All of these awards 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	3,600	Five Years	5/2/18 – 4/30/23	\$694,800	5/2/18	4/30/23
James F. Laird	8,000	Ten Years	4/30/15 – 4/30/25	\$1,125,760	2/27/15	4/30/25
Paula R. Meyer	8,000	Ten Years	2/20/19 – 4/30/29	\$1,245,600	2/20/19	4/30/29
Paul A. Reeder, III	8,000	Ten Years	4/30/15 – 4/30/25	\$1,457,600	4/30/15	4/30/25
Bradley C. Shoup	3,600	Five Years	5/1/17 – 4/30/22	\$725,760	5/1/17	4/30/22
Nicole R. St. Pierre	8,000	Ten Years	2/20/19 – 4/30/29	\$1,245,600	2/20/19	4/30/29

Ownership and Retention Guidelines

Our Corporate Governance Guidelines prohibit shares granted to our directors as compensation from being sold while the director remains on the Board, except for sales of shares in an amount necessary 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 the 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 Chair of the Board approves Board agendas and schedules, chairs all executive sessions of the directors, acts as the liaison between the directors and management, is available to the Secretary to discuss and, as necessary, respond to shareholder communications to the Board, and calls meetings of the directors.

We believe that separating the roles of Chair of the Board and CEO provides for a strong governance and oversight structure. These roles generally have been separate since 2000, except for the period from April 2015 through December 2015 when Mr. Dillon assumed the role of Chair of the Board on a temporary basis related specifically to succession transition and in conjunction with his stepping down as CEO at the end of 2015.

Currently, five of our six director nominees qualify as independent under NASDAQ standards, with the exception of Ms. Brilliant, our CEO. 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 non-executive 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. The Corporate Governance Guidelines also permit the Chair to serve longer than 10 years if he or she has not served in that role for five consecutive years. The Board has not made any exceptions to the term limits for non-executive directors during the last five years.

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, operational, financial, legal, regulatory information security, 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 our employees.

Director Orientation and Continuing Education and Development

When a new non-executive 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 in which the Company operates 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 currently constitute, and would continue to 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 consider diversity in identifying nominees for a directorship 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 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.

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 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 of our 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 are currently not party to any transactions with related persons. The Company has no written policy with respect to related party transactions, because in the last 10 years we have only had one related party transaction to consider. 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 of SEC Regulation S-K. 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 2019 were Mr. Fortener, Mr. Laird, Ms. Meyer, Mr. Reeder, Mr. Shoup, and Ms. St. Pierre. No director who served on the Compensation Committee during 2019 currently is, or during 2019 was, an officer, employee or former officer of the Company, with the exception of Mr. Laird, our former CFO. No member of the Compensation Committee has or had any relationship during 2019 requiring disclosure by us under Item 404 of SEC Regulation S-K. During 2019, 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 2019, Christopher M. Bingaman, Heather E. Brilliant, and Thomas E. Line were the Company's only executive officers. In connection with Ms. Brilliant's appointment, Mr. Bingaman stepped down from his position as Chief Executive Officer and President effective September 3, 2019, but remains employed with the Company as a portfolio manager. Ms. Brilliant's business experience and qualifications are described above under the heading "Proposal 1 - Election of Directors, The Nominees," and Mr. Line's business experience and qualifications are described below. Each executive officer devotes his or her full time and effort to the affairs of the Company.

Thomas E. Line, age 52, has served as the CFO and Treasurer of the Company since 2015 and as the Chief Executive Officer of the Diamond Hill Funds since he joined the Company in 2014. Previously, Mr. Line served as an Independent Trustee and Chair 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 is a Certified Public Accountant (inactive).

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 (each, a "named executive officer"):

- Heather E. Brilliant, who served as our CEO and President since September 3, 2019;
- Thomas E. Line, who served as our CFO and Treasurer throughout 2019; and
- Christopher M. Bingaman, who served as our CEO and President until September 3, 2019.

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. Achieving profitability in our industry while retaining high-quality talent requires balancing 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 2, 2020, the record date for the Annual Meeting, our employees and directors owned approximately 17.3% 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 2019 Annual Meeting, our shareholders voted upon an advisory resolution to approve the compensation of our named executive officers, which was approved by 97% 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 2019.

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 and the size of the overall available incentive pool. The size of the incentive pool is based on (i) investment results in client portfolios, (ii) overall firm operating results, (iii) general 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, all employees are generally granted equity awards as an incentive to their continued employment. These awards typically 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. The compensation program varies for those employees who are not a part of our investment team, but is based on rewarding 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.

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. Each member of the Committee 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, approve the CEO’s compensation (including any long-term incentive or other compensation under any incentive-based or equity-based compensation plan);
- review management’s recommendations and approve the compensation of other non-CEO executive officer compensation;
- retain compensation consultants as it deems necessary to assist in its evaluation of director, CEO or other executive officer 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 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 as part of our annual review process and makes recommendations to the Committee regarding all elements of compensation paid to him. Changes in compensation proposed by the CEO are based on our CFO'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 2018 or 2019.

Each year the Committee obtains an asset management industry pay analysis prepared by McLagan, a compensation specialist focusing on the asset management industry. The companies in the McLagan analysis include approximately 160 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 across our industry, 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 designed to compensate knowledge and experience and 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. 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 Ms. Brilliant, to reward her for her strong performance and overall contributions to the Company in fiscal year 2019. The Committee believes a discretionary cash bonus provided the Committee with the flexibility to consider all aspects of Ms. Brilliant's performance and contributions to the Company as CEO and President. In determining the amount of Ms. Brilliant's cash bonus, the Committee considered the Company's overall operating results for 2019, the target compensation levels detailed in Ms. Brilliant's employment agreement and her partial year of employment.

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 2019. 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 2019, contributions by Mr. Line that were not reflected in our operating results, and broad market compensation data.

Mr. Bingaman was awarded a discretionary cash bonus to reward him for his strong performance and overall contributions to the Company in fiscal year 2019. In evaluating Mr. Bingaman's cash bonus, the Company considered his contributions as both the CEO (through September 3, 2019) and as a Portfolio Manager. In determining the amount of Mr. Bingaman's cash bonus, the Company considered its overall operating results for 2019 and the investment results in the portfolios he manages.

Annual Stock Bonuses. The Committee awarded a discretionary stock bonus of \$380,000 to Ms. Brilliant, to reward her for her strong performance and overall contributions to the Company in fiscal year 2019. Similar to the cash bonus awarded to Ms. Brilliant, the Committee believes a discretionary stock bonus provides the Committee with the flexibility to consider all aspects of Ms. Brilliant's performance and contributions to the Company as CEO and President. In determining the amount of Ms.

Brilliant's stock bonus, the Committee considered the Company's overall operating results for 2019, the desire to further align her interests with the Company and its shareholders, the target compensation levels detailed in Ms. Brilliant's employment agreement and her partial year of employment. The shares awarded in this stock bonus are fully vested but are restricted from sale until February 2025.

The Committee awarded a discretionary stock bonus of \$300,000 to Mr. Line, to reward him for his strong performance and overall contributions to the Company in fiscal year 2019. Similar to the cash bonus awarded to Mr. Line, the Committee believes a discretionary stock bonus provides the Committee with the flexibility to consider all aspects of Mr. Line's performance and contributions to the Company as CFO. In determining the amount of Mr. Line's stock bonus, the Committee considered the Company's overall operating results for 2019, the desire to further align his interests with the Company and its shareholders, contributions by Mr. Line that were not reflected in our operating results, and broad market compensation data. The shares awarded in this stock bonus are fully vested, but are restricted from sale until February 2025.

Mr. Bingaman was awarded a discretionary stock bonus of \$637,500 to reward him for his strong performance and overall contributions to the Company in fiscal year 2019. Similar to the cash bonus awarded to Mr. Bingaman, the Company considered his contributions as both the CEO (through September 3, 2019) and as a Portfolio Manager. In determining the amount of Mr. Bingaman's stock bonus, the Company considered its overall operating results for 2019 and the investment results in the portfolios he manages. The shares awarded in this stock bonus are fully vested, but are restricted from sale until February 2025.

2019 Restricted Share Award to Ms. Brilliant. On September 30, 2019, the Committee awarded 21,719 restricted shares of the Company to Ms. Brilliant pursuant to the Company's 2014 Plan and her employment agreement. The Committee believes this award strongly aligns the long-term interests of Ms. Brilliant with those of the Company and its shareholders. This long-term equity award is intended to represent a portion of Ms. Brilliant's total compensation for the five year period 2019 through 2024. Subject to Ms. Brilliant's continued employment with the Company, the restricted shares will cliff vest on October 1, 2024.

2019 Restricted Share Award to Mr. Line. On February 20, 2019, the Committee awarded 8,000 restricted shares of the Company to Mr. Line pursuant to the Company's 2014 Plan. The Committee believes this award strongly aligns the long-term interests of Mr. Line with those of the Company and its shareholders. This long-term equity award is intended to represent a portion of Mr. Line's total compensation for the five year period 2019 through 2023. Subject to Mr. Line's continued employment with the Company, the restricted shares will cliff vest on January 1, 2024.

2014 Restricted Stock Unit Award to Mr. Line. In connection with his initial employment with the Company, in December 2014, the Committee awarded 15,000 restricted stock units ("RSUs") to Mr. Line pursuant to the Company's 2014 Plan as long-term incentive compensation. This award was subject to time-based vesting with 3,000 of these RSUs vesting on each April 1st from 2015 through 2019. This award has fully vested, with the final 3,000 RSUs having vested on April 1, 2019. Each RSU was settled in the Company's common shares on a 1-for-1 basis, with the resulting shares subject to restrictions on sale or transfer for an additional five years from each respective vesting date. The Committee believes this compensation structure strongly aligns the long-term interests of Mr. Line with those of the Company and its shareholders. This RSU award comprised all of Mr. Line's equity-based compensation for 2014 through 2018.

2018 Annual Stock award to Mr. Bingaman. The Committee awarded a discretionary stock bonus of \$1,000,000 to Mr. Bingaman, to reward him for his strong performance and overall contributions to the Company in fiscal year 2018. Similar to the cash bonus awarded to Mr. Bingaman, the Committee believes a discretionary stock bonus provides 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 stock bonus, the Committee considered the Company's overall operating results for 2018, the investment results in client portfolios, client service, overall contributions to the investment team, and broad market compensation data. The shares awarded in this stock bonus are fully vested, but are restricted from sale until February 2024.

Retirement Plan Benefits. We provide retirement benefits to our named executive officers through our 401(k) Plan. Each named executive officer is entitled to participate in the 401(k) 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 employees of the Company. 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. Only Ms. Brilliant has an employment agreement which provides for payments upon termination of employment. More information on Ms. Brilliant's employment agreement and termination payments thereunder is set forth under the heading "Employment Agreements and Change in Control Benefits."

Section 162(m) of the Internal Revenue Code

Prior to December 22, 2017, when the Tax Cuts and Jobs Act of 2017 ("TCJA") was signed into law, Section 162(m) of the Internal Revenue Code generally disallowed a tax deduction to publicly held companies for compensation paid to certain "covered employees" in excess of \$1 million per covered employee in any year, except to the extent that the compensation in excess of the limit qualified as performance-based.

Under the TCJA, the performance-based exception has been repealed and the \$1 million deduction limit now applies to (1) anyone serving as the chief executive officer or the chief financial officer at any time during the taxable year, (2) the top three other highest compensated executive officers serving at the end of the taxable year, and (3) any individual who had been a covered employee for any taxable year of the Company that started after December 31, 2016. However, the new rules do not apply to remuneration provided pursuant to a written binding contract in effect on November 2, 2017 that is not modified in any material respect after that date.

The Board of Directors has not adopted a formal policy regarding tax deductibility of compensation paid to our executive officers. While the Board and the Committee consider the potential tax deductibility of executive compensation under Section 162(m) of the Internal Revenue Code in establishing compensation for named executive officers, the Board and the Committee require the flexibility to consider additional factors in making compensation decisions in order to best fulfill the objectives of the Company's compensation program. Accordingly, the Committee may authorize compensation that might not be deductible, and may modify compensation that was initially intended to be exempt from Section 162(m), if it determines that such compensation decisions are in the best interests of the Company and its shareholders.

Risks Related to Compensation Policies and Practices

As part of its oversight of our executive and non-executive compensation programs, the 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, and 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 Committee also considered the following risk mitigating factors:

- our current compensation programs reward portfolio managers and research analysts on trailing five-year investment performance in client accounts;
- a significant portion of incentive compensation is in the form of long-term equity-based awards;
- the 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's discretionary authority to adjust annual incentive awards;
- the Company's internal controls over financial reporting and other financial, operational and compliance policies and practices; and
- the consistency of base salaries 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 reasonably designed to not have a material adverse effect on the Company.

Compensation Recoupment and Restitution Policy

Upon the recommendation of the Committee, the Board 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 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 Committee and the Board, recoup all or a portion of the employee's incentive compensation; and
- if the 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.

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, 2019. 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
Heather E. Brilliant	CEO and President	5x Salary	4,746	22,954	Yes
Thomas E. Line	Chief Financial Officer	3x Salary	5,340	18,302	Yes

(a) Based on a per share price of \$140.46 which was the closing price of our common shares on December 31, 2019, and the respective base salaries of our named executive officers as of that date.

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

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	All Other Compensation ⁽⁶⁾	Total
Heather E. Brilliant <i>Chief Executive Officer and President</i>	2019	\$ 133,333	\$ 230,000	\$ 3,380,000 ⁽²⁾	\$ 1,020,656	\$ 4,763,989
Thomas E. Line <i>Chief Financial Officer and Treasurer</i>	2019	\$ 250,000	\$ 250,000	\$ 1,545,600 ⁽³⁾	\$ 43,100	\$ 2,088,700
	2018	\$ 250,000	\$ 225,000	\$ —	\$ 41,225	\$ 516,225
	2017	\$ 200,000	\$ 225,000	\$ —	\$ 29,600	\$ 454,600
Christopher M. Bingaman <i>Former Chief Executive Officer and and President</i>	2019	\$ 300,000	\$ 637,500	\$ 637,500 ⁽⁴⁾	\$ 47,600	\$ 1,622,600
	2018	\$ 300,000	\$ 500,000	\$ 3,552,280 ⁽⁵⁾	\$ 45,313	\$ 4,397,593
	2017	\$ 300,000	\$ 550,000	\$ —	\$ 38,700	\$ 888,700

(1) The amount reported represents a discretionary cash bonus award. These awards were not based upon any pre-established performance goals.

(2) The amount reported includes the grant date fair value of Ms. Brilliant's discretionary stock bonus award of \$380,000 which immediately vested upon grant. Shares acquired pursuant to this discretionary stock bonus are restricted from sale for five years following the grant date. The amount reported also includes the grant date fair value of \$3,000,000 for Ms. Brilliant's initial equity award of 21,719 restricted shares which were awarded to her in 2019 pursuant to her employment agreement. Subject to Ms. Brilliant's continued employment, these restricted shares will cliff vest on October 1, 2024. Neither of these grants were based upon any pre-established performance goals.

(3) The amount reported includes the grant date fair value of Mr. Line's discretionary stock bonus award of \$300,000 which immediately vested upon grant. Shares acquired pursuant to this discretionary stock bonus are restricted from sale for five years following the grant date. The amount reported also includes the grant date fair value of \$1,245,600 for Mr. Line's discretionary grant of 8,000 restricted shares which were awarded to him in 2019. Subject to Mr. Line's continued employment, these restricted shares will cliff vest on January 1, 2024. Neither of these grants were based upon any pre-established performance goals.

- (4) The amount reported includes the grant date fair value for Mr. Bingaman's discretionary stock bonus award which immediately vested upon grant. Shares acquired pursuant to this discretionary stock bonus are restricted from sale for five years following the grant date. This grant was not based upon any pre-established performance goals.
- (5) The amount reported includes the grant date fair value for Mr. Bingaman's discretionary stock bonus award of \$1,000,000 which immediately vested upon grant. Shares acquired pursuant to this discretionary stock bonus are restricted from sale for five years following the grant date. The amount reported also includes the grant date fair value of \$2,552,280 for Mr. Bingaman's discretionary grant of 12,000 restricted shares which were awarded to him in 2018. Subject to Mr. Bingaman's continued employment, these restricted shares will vest on January 1, 2023. Neither of these grants were based upon any pre-established performance goals.
- (6) The following types of compensation are included in the "all other compensation" column:

Name	Year	Contributions to 401k Plan ^(a)	Contributions to Health Savings Account ^(a)	Supplemental Payment ^(b)	Total
Heather E. Brilliant	2019	\$ 18,789	\$ 1,867	\$ 1,000,000	\$ 1,020,656
	2018				\$ —
	2017				\$ —
Thomas E. Line	2019	\$ 37,500	\$ 5,600		\$ 43,100
	2018	\$ 35,625	\$ 5,600		\$ 41,225
	2017	\$ 24,000	\$ 5,600		\$ 29,600
Christopher M. Bingaman	2019	\$ 42,000	\$ 5,600		\$ 47,600
	2018	\$ 39,188	\$ 6,125		\$ 45,313
	2017	\$ 32,400	\$ 6,300		\$ 38,700

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

(b) Represents an initial cash payment made pursuant to her employment agreement and in conjunction with the commencement of her employment with the Company.

Pay Ratio Disclosure

The below table shows the ratio of the median annual total compensation of all Company employees (excluding the CEO) to the annual total compensation of the Company's CEO. In determining the median employee, a listing was prepared of all current employees as of December 31, 2019. To determine the median employee, we included 2019 base salary and incentive compensation (annualized for those employees that were not employed for the full year of 2019). Once the median employee was identified, for purposes of comparison to the CEO, we then calculated the compensation for that employee in the same manner as the Total Compensation shown for our CEO in the Summary Compensation Table.

Median Employee total annual compensation	\$ 272,946
Heather E. Brilliant, CEO, total annual compensation	\$ 6,277,600 ⁽¹⁾
Ratio of CEO to Median Employee Compensation	23.0 : 1

- (1) The compensation shown for the CEO includes annualized base and incentive compensation, an initial \$3,000,000 five-year restricted stock award granted on September 30, 2019, and an initial \$1,000,000 cash award. Excluding the initial stock and initial cash awards, the CEO total annualized compensation was \$2,277,600.

Voluntary Supplemental Pay Ratio Disclosure - GAAP Accounting

The compensation numbers presented in the below table use the actual compensation expense recorded by the Company on its financial statements contained in Form 10-K ("GAAP Accounting"). Under GAAP Accounting, in the below table long-term restricted stock awards are amortized over the vesting period of the award, as opposed to the above table, which

includes the entire grant date value in the year the award is granted. The below table shows the same median employee as the above table.

Median Employee total annual compensation ⁽¹⁾	\$	311,832
Heather E. Brilliant, CEO, total annual compensation ⁽¹⁾	\$	3,427,600
Ratio of CEO to Median Employee Compensation		11.0 : 1

⁽¹⁾ The compensation shown above includes \$38,886 and \$150,000, respectively in GAAP Accounting compensation expense related to long-term restricted stock awards.

Grants of Plan Based Awards for 2019

The following table sets forth information regarding annual incentive plan awards granted to each of the named executive officers for the year ended December 31, 2019.

Name	Grant Date	Compensation Committee Action Date ⁽¹⁾	Estimated Possible Payouts Under Equity Incentive Plan Awards			Grant Date Fair Value of Stock and Options Awards \$
			Threshold #	Target #	Maximum #	
Heather E. Brilliant ⁽²⁾	09/30/2019	07/05/2019	—	21,719	—	3,000,000
Thomas E. Line ⁽²⁾	02/20/2019	02/20/2019	—	8,000	—	1,245,600
Christopher M. Bingaman	—	—	—	—	—	—

⁽¹⁾ The Compensation Committee Action Date represents the date on which the Committee authorized the equity-based award.

⁽²⁾ The Compensation Committee granted the above awards to Ms. Brilliant and Mr. Line pursuant to the 2014 Plan. This award is intended to represent a portion of their total compensation for the five year period following the grant date. Subject to their continued employment the restricted shares will vest on October 1, 2024 for Ms. Brilliant and January 1, 2024 for Mr. Line.

Outstanding Equity Awards at December 31, 2019

The following table summarizes all outstanding equity awards held by our named executive officers as of December 31, 2019.

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 ⁽²⁾
Heather E. Brilliant	21,719	\$ 3,050,651
Thomas E. Line	8,000	\$ 1,123,680
Christopher M. Bingaman	12,000	\$ 1,685,520

⁽¹⁾ These shares represent a grant of restricted shares to Ms. Brilliant, Mr. Line, and Mr. Bingaman pursuant to the 2014 Plan. Subject to their continued employment with the Company, these restricted shares will vest on October 1, 2024, January 1, 2024, and January 1, 2023, respectively.

⁽²⁾ The amount in this column represents the value of the share grants shown multiplied by \$140.46, the closing market price of our common shares as of December 31, 2019.

Option Exercises and Stock Vested for 2019

No options have been granted to the named executive officers pursuant to the 2014 Plan. The following table sets forth information with respect to stock awards held by our named executive officers that vested in 2019.

Name	Stock Awards	
	Number of Shares Acquired on Vesting	Value Realized on Vesting
Heather E. Brilliant	—	\$ —
Thomas E. Line	3,000 ⁽¹⁾	\$ 427,200
Christopher M. Bingaman	—	\$ —

⁽¹⁾ On April 1, 2019, these shares were acquired upon satisfaction of the service-based vesting requirements applicable to the final portion of the 15,000 RSUs granted to Mr. Line in December 2014 pursuant to the 2014 Plan. Pursuant to the terms of the RSUs established by the Committee upon grant, 3,000 of the RSUs vested on each April 1st from 2015 through 2019. The RSUs were settled in the Company's common shares on a 1-for-1 basis.

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 all 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, 2019.

Employment Agreements and Change in Control Benefits

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

In July 2019, we entered into an employment agreement with Ms. Brilliant. The agreement has a current expiration date of December 31, 2024. The agreement provides for an annual salary of \$400,000, which may be increased (but not reduced) by the Board annually, plus a target annual cash and equity bonus of \$600,000 and \$1,150,000, respectively. Ms. Brilliant also received an initial cash award of \$1,000,000, and an initial restricted stock award of \$3,000,000 (21,719 shares) that vests on October 1, 2024, provided Ms. Brilliant remains employed with the Company on that date. Ms. Brilliant's employment agreement also entitles her to receive health insurance and six weeks paid vacation annually and to participate in other benefit programs offered to employees. The agreement also restricts Ms. Brilliant from competing with the Company during the term of the agreement and for one year following termination of her employment and provides that she will at all times maintain the confidentiality of Company information.

If we terminate Ms. Brilliant's employment without "Cause" (as defined in Ms. Brilliant's employment agreement), she would be entitled to the following payments, which are quantified to reflect the amounts she would have received had her employment been terminated at December 31, 2019:

1. her accrued but unpaid base salary and vacation and unreimbursed business expenses as of the date of termination (\$0 at December 31, 2019);

2. payments, if any, under other benefit plans and programs in effect at the time (\$0 at December 31, 2019; we have no benefit plans that would result in payments upon termination);
3. a single lump sum payment equal to her base salary in effect at the date of termination (\$400,000 at December 31, 2019);
4. a single lump sum payment equal to the sum of the annual target value of cash and equity incentive awards (\$1,750,000 at December 31, 2019); and
5. her accrued but unpaid annual cash bonus from the year prior to the date of termination (\$200,000 at December 31, 2019).

Ms. Brilliant may terminate her employment for “Good Reason” (as defined in Ms. Brilliant’s employment agreement), which generally includes reduction of her annual base salary, relocation of the Company’s principal place of business to a location more than 50 miles from its current location, assignment to her of duties inconsistent with her position and authority, a requirement that she no longer report directly to the Board, or a breach by the Company of her employment agreement. If she terminates her employment for Good Reason, Ms. Brilliant is entitled to all of the payments to which she would be entitled in the event she is terminated without Cause.

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

In the event that a “Change in Control” (as defined in Ms. Brilliant’s employment agreement), occurs and, within six months prior or 24 months following such Change in Control Ms. Brilliant’s employment is terminated by the Company or its successor for any reason other than death, disability or for Cause, or Ms. Brilliant terminates her employment for Good Reason, she will be entitled to the following payments from us or our successor, in addition to the applicable payments set forth in numbers 1 through 5 above:

- a single lump sum payment equal to the year-to-date pro-rata value of her target cash and equity incentive awards (\$1,750,000 at December 31, 2019); and
- full vesting of her a initial restricted stock award of 21,719 shares, to the extent not previously vested in a Change in Control transaction (\$3,050,650 at December 31, 2019).

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, 2019.

Submitted by the Compensation Committee of the Board of Directors:

James F. Laird
Randolph J. Fortener
Paula R. Meyer
Paul A. Reeder
Bradley C. Shoup
Nicole R. St. Pierre, Chair

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 ("KPMG") to serve as our independent registered public accounting firm for 2020. 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 fiscal 2020.

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 2020.

If Proposal 2 is not approved, the Audit Committee will reconsider the appointment of KPMG as our independent registered public accounting firm for 2020, and may or may not make any changes to such appointment.

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 2019 and 2018.

	Year Ended 12/31/2019	Year Ended 12/31/2018
Audit Fees ⁽¹⁾	\$ 237,450	\$ 205,600
Audit-Related Fees	—	—
Tax Fees ⁽²⁾	57,966	91,806
All Other Fees	—	—
Total Fees	<u>\$ 295,416</u>	<u>\$ 297,406</u>

⁽¹⁾ Audit Fees include professional services rendered for the audit of annual financial statements, reviews of quarterly financial statements, issuance of consents, and assistance with review of other documents filed with the SEC.

⁽²⁾ Tax Fees include professional services rendered for tax preparation and compliance.

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

During 2019, the Audit Committee was comprised of six independent directors operating under a written charter adopted by the Board, the most current version of which is available on our website, ir.diamond-hill.com, under “Corporate Governance” on the right hand side of the site. 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, 2019.

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, 2019. The Audit Committee reviewed the audit plan and scope with KPMG and discussed with KPMG the applicable requirements of the PCAOB and the SEC. 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, 2019, 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, 2019, filed with the SEC.

Submitted by the Audit Committee of the Board of Directors:

Randolph J. Fortener, Chair
James F. Laird
Paula R. Meyer
Paul A. Reeder, III
Bradley C. Shoup
Nicole R. St. Pierre

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

As described 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 2019 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 2020 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.

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 2021 ANNUAL MEETING

Shareholders are entitled to submit proposals on matters appropriate for shareholder action consistent with SEC rules and our Code of Regulations (the "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 13, 2020, and must otherwise comply with the requirements of Rule 14a-8 of the Exchange Act. The Company will not be required to include in its proxy statement a shareholder proposal that is received after that date or that otherwise fails to meet the requirements for shareholder proposals established by applicable SEC rules.

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 January 28, 2021 and not earlier than December 29, 2020. To be eligible for consideration at an annual meeting of shareholders, a shareholder's proposal and notice thereof must otherwise 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 Gary R. Young, Secretary, 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 1 State Street, 30th Floor, New York, New York 10004, or by phone at (212) 509-4000, or write to Mr. Gary R. Young, Secretary, at 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215, or by phone at (614) 255-3333.

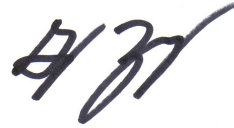
In addition, many brokerage firms and other holders of record have instituted householding. If your family has one or more "street name" accounts under which our shares are beneficially owned, you may have received householding information from your broker, financial institution or other nominee in the 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 card to vote on such matters in accordance with their best judgment.

We appreciate your prompt completion, execution, and delivery of your proxy card or your submission of voting instructions electronically over the Internet or by telephone. 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

A handwritten signature in black ink, appearing to read "G. Young", written over a horizontal line.

Gary R. Young
Secretary

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

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 000-24498



DIAMOND HILL INVESTMENT GROUP, INC.

(Exact name of registrant as specified in its charter)

Ohio **65-0190407**
(State of (I.R.S. Employer
incorporation) Identification No.)

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common shares, no par value	DHIL	The NASDAQ Stock Market

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The 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 \$141.72 on June 30, 2019, on the NASDAQ Global Select Market was \$468,216,662. 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 27, 2020, is 3,289,865 shares.

Documents Incorporated by Reference

Portions of the registrant’s definitive Proxy Statement for the 2020 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 Annual Report on Form 10-K.

Diamond Hill Investment Group, Inc.
Form 10-K
For the Fiscal Year Ended December 31, 2019
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PART I

Item 1. Business

Forward-Looking Statements

Throughout this Annual Report on Form 10-K and the documents incorporated herein by reference, Diamond Hill Investment Group, Inc. (“Diamond Hill”), may make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Exchange Act”), and Section 21E of the Securities Exchange Act of 1934, as amended, including, but not limited to, statements regarding 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,” “target,” “project,” “estimate,” “would,” “will,” “continue,” “should,” “hope,” “seek,” “plan,” “intend,” variations of such words and similar expressions identify such forward-looking statements, which speak only as of the date made. 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: (i) any reduction in our assets under management (“AUM”); (ii) withdrawal, renegotiation or termination of investment advisory agreements; (iii) damage to our reputation; (iv) failure to comply with investment guidelines or other contractual requirements; (v) challenges from the competition we face in our business; (vi) adverse regulatory and legal developments; (vii) unfavorable changes in tax laws or limitations; (viii) interruptions in or failure to provide critical technological service by us or third parties; (ix) adverse civil litigation and government investigations or proceedings; (x) risk of loss on our investments; (xi) lack of sufficient capital on satisfactory terms; (xii) losses or costs not covered by insurance; (xiii) impairment of goodwill or intangible assets; (xiv) a decline in the performance of our products; (xv) changes in interest rates; (xvi) changes in national and local economic and political conditions; (xvii) the continuing economic uncertainty in various parts of the world; 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.

We do not undertake or plan to update or revise any such forward-looking statements to reflect actual results, changes in plans, assumptions, estimates or projections, or other circumstances occurring after the date of this Annual Report on Form 10-K, even if such results, changes or circumstances make it clear that any forward-looking information will not be realized. If there are any future public statements or disclosures by us which modify or impact any of the forward-looking statements contained in or accompanying this Annual Report on Form 10-K, such statements or disclosures will be deemed to modify or supersede such statements in this Annual Report on Form 10-K. Throughout this Annual Report on Form 10-K, when we use the terms the “Company,” “management,” “we,” “us,” and “our,” we mean Diamond Hill and its subsidiaries.

Overview

Diamond Hill, an Ohio corporation organized in April 1990, derives its consolidated revenue and net income from investment advisory and fund administration services provided by its wholly owned subsidiary, Diamond Hill Capital Management, Inc. (“DHCM”). DHCM is a registered investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). DHCM sponsors, distributes, and provides investment advisory and related services to clients through Diamond Hill Funds (the “Funds”), sub-advised mutual funds, and separately managed accounts.

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 with a bottom-up, intrinsic value-focused approach to active investment management. As a result, our investment strategy is driven by individual security decisions rather than by a macro-economic focus.

Investment Process

DHCM's equity investment process begins with fundamental research focusing on estimating a company's intrinsic value. Bottom-up analysis, described in further detail below, is of primary importance in estimating the intrinsic value of an individual company. Our research analysts also evaluate each company within the context of sector and industry secular trends. A five-year discounted cash flow analysis is the primary methodology used to determine whether there is a discrepancy between the current market price and DHCM's estimate of intrinsic value. We will invest when we believe we can make informed judgments about, and estimates of, those cash flows and when our estimate of intrinsic value provides a margin of safety relative to the current market price. The key factors in determining the intrinsic value are normalized earnings and earnings growth rate, payout ratio and dividends, terminal earnings multiple, and required rate of return. We assign the highest portfolio weights where we have the highest conviction. Within stated diversification constraints, we are willing to take outsized positions in our highest conviction ideas. Benchmark weights are not a consideration.

DHCM also applies a value philosophy and process to the analysis of fixed income securities. For our Short Duration Total Return and Core Bond strategies, our investment process is driven by security selection, sector allocation, yield curve positioning, and duration management in concert with overall portfolio management. 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 the index. The hallmark of our process is the selection of individual issues with an emphasis on identifying undervalued securities. Individual securities are selected following a risk/reward evaluation of interest rate and credit risk, and an examination of the complex structure of the security. We only purchase those securities that we identify as undervalued and offer a strong total return profile relative to similar securities.

For our Corporate Credit and High Yield strategies, in addition to the analysis by the portfolio managers, we leverage the company and industry analysis conducted by our research team to identify attractive corporate bonds. We seek to invest in bonds of companies with improving return on invested capital and stable or improving competitive positions. Our research team's company analysis focuses on the fundamental economic drivers of the business and helps assess whether there is adequate financial strength and flexibility to meet ongoing commitments. The research team also considers debt instruments as part of their analysis. After the credit research is complete, our portfolio managers determine whether a security is attractive on a yield basis relative to asset and interest coverage and relative to other securities with comparable risk. We will only invest in the bonds of a company that we can properly analyze and value.

DHCM believes that many investors' short-term focus hinders their long-term results, which creates market inefficiencies and therefore opportunities. In addition, the size and complexity of the fixed income markets also creates inefficiencies. We believe 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 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 rate 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, each of which is based on the same intrinsic value philosophy. As of December 31, 2019, 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. *All Cap 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. *Global* - Pursues long-term capital appreciation by investing in U.S. and non-U.S. equity securities across a broad range of market capitalizations including up to 20% exposure to emerging markets.
7. *International* - Pursues long-term capital appreciation by investing primarily in non-U.S. equity securities across a broad range of market capitalizations including up to 30% exposure to emerging markets.
8. *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.
9. *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 40% in international equity securities and up to 20% in fixed income securities.
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 outcomes we provide our clients is excellent investment returns 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. As of December 31, 2019, the since-inception returns for most of our strategies exceeded their respective benchmark returns.

The following is a summary of the investment returns for each of our Funds as of December 31, 2019, relative to its respective passive benchmark.

	As of December 31, 2019					
	Inception	1 Year	3 Year	5 Year	10 Year	Since Inception
Diamond Hill Small Cap Fund	12/29/2000	21.75%	4.76%	4.90%	9.26%	10.01%
Russell 2000 Index		25.52 %	8.59 %	8.23 %	11.83 %	8.18 %
Diamond Hill Small-Mid Cap Fund	12/30/2005	27.74%	6.66%	7.76%	11.74%	8.91%
Russell 2500 Index		27.77 %	10.33 %	8.93 %	12.58 %	8.84 %
Diamond Hill Mid Cap Fund	12/31/2013	25.82%	7.62%	8.29%	NA	8.22%
Russell Midcap Index		30.54 %	12.06 %	9.33 %	NA	9.97 %
Diamond Hill Large Cap Fund	6/29/2001	32.18%	12.84%	10.31%	12.09%	9.00%
Russell 1000 Index		31.43 %	15.05 %	11.48 %	13.54 %	7.71 %
Diamond Hill All Cap Select Fund	12/30/2005	30.77%	11.45%	8.45%	11.35%	8.61%
Russell 3000 Index		31.02 %	14.57 %	11.24 %	13.42 %	9.24 %
Diamond Hill Long-Short Fund	6/30/2000	23.11%	6.65%	5.74%	7.01%	6.93%
60% Russell 1000 Index / 40% ICE BofA U.S. T-Bill 0-3 Mo Index		19.15 %	9.69 %	7.37 %	8.37 %	4.74 %
Diamond Hill Research Opportunities Fund	3/31/2009	25.51%	7.42%	5.29%	8.90%	11.78%
75% Russell 3000 Index / 25% ICE BofA U.S. T-Bill 0-3 Mo Index		23.38 %	11.36 %	8.75 %	10.23 %	12.33 %
Diamond Hill Global Fund	12/31/2013	30.34%	12.97%	8.51%	NA	7.53%
Morningstar Global Markets Index		26.24 %	12.14 %	8.37 %	NA	7.63 %
Diamond Hill International Fund	12/30/2016	23.56%	12.99%	NA	NA	12.99%
Morningstar Global Markets ex-U.S. Index		21.57 %	9.94 %	NA	NA	9.94 %
Diamond Hill Short Duration Total Return Fund	7/5/2016	4.85%	4.12%	NA	NA	3.90%
Bloomberg Barclays U.S. 1-3 Yr. Gov./Credit Index		4.03 %	2.15 %	NA	NA	1.71 %
Diamond Hill Core Bond Fund	7/5/2016	7.93%	4.53%	NA	NA	3.24%
Bloomberg Barclays U.S. Aggregate Index		8.72 %	4.03 %	NA	NA	2.49 %
Diamond Hill Corporate Credit Fund	9/30/2002	13.20%	7.11%	6.95%	7.12%	7.22%
ICE BofA U.S. Corporate & High Yield Index		14.28 %	6.03 %	4.89 %	5.97 %	6.19 %
Diamond Hill High Yield Fund	12/4/2014	15.44%	8.82%	8.18%	NA	8.12%
ICE BofA U.S. High Yield Index		14.41 %	6.32 %	6.13 %	NA	5.91 %

- 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, 2019:

(in millions)	Assets Under Management As of December 31,				
	2019	2018	2017	2016	2015
Proprietary funds	\$ 16,148	\$ 13,440	\$ 15,974	\$ 13,618	\$ 11,505
Sub-advised funds	2,029	1,358	1,518	1,445	665
Separately managed accounts	5,222	4,310	4,825	4,318	4,671
Total AUM	\$ 23,399	\$ 19,108	\$ 22,317	\$ 19,381	\$ 16,841

(in millions)	Assets Under Management by Investment Strategy As of December 31,				
	2019	2018	2017	2016	2015
Small Cap	\$ 795	\$ 1,048	\$ 1,525	\$ 1,843	\$ 1,703
Small-Mid Cap	3,243	2,770	3,528	3,329	2,070
Mid Cap	569	143	130	59	18
Large Cap	12,344	9,637	10,867	8,497	7,547
All Cap Select	528	432	444	402	544
Long-Short	3,605	3,767	4,980	4,613	4,597
Global/International	35	18	6	2	1
Total Equity	21,119	17,815	21,480	18,745	16,480
Short Duration Fixed Income	809	579	313	197	—
Core Fixed Income	300	55	44	40	—
Long Duration Fixed Income	52	52	—	—	—
Corporate Credit	1,147	757	668	549	351
High Yield	135	54	31	32	10
Total Fixed Income	2,443	1,497	1,056	818	361
Total Equity and Fixed Income	23,562	19,312	22,536	19,563	16,841
(Less: Investments in affiliated funds) ^(a)	(163)	(204)	(219)	(182)	—
Total AUM	\$ 23,399	\$ 19,108	\$ 22,317	\$ 19,381	\$ 16,841

(a) Certain of the Funds own shares of the Diamond Hill Short Duration Total Return Fund. The Company reduces its total AUM by these investments held in this affiliated fund.

(in millions)	Change in Assets Under Management For the Year Ended December 31,				
	2019	2018	2017	2016	2015
AUM at beginning of the year	\$ 19,108	\$ 22,317	\$ 19,381	\$ 16,841	\$ 15,656
Net cash inflows (outflows)					
proprietary funds	(499)	(978)	843	548	1,916
sub-advised funds	216	(25)	(164)	639	(6)
separately managed accounts	(394)	(99)	(254)	(1,023)	(443)
	(677)	(1,102)	425	164	1,467
Net market appreciation/(depreciation) and income	4,968	(2,107)	2,511	2,376	(282)
Increase (decrease) during the year	4,291	(3,209)	2,936	2,540	1,185
AUM at end of the year	\$ 23,399	\$ 19,108	\$ 22,317	\$ 19,381	\$ 16,841

Capacity

The Company's primary goal is to fulfill our fiduciary duty to clients. We understand that our ability to retain and grow AUM as a firm has been, and will be, driven primarily by delivering attractive long-term investment results to our clients. In the event we determine that the size of one of our strategies hinders our ability to add value over a passive alternative, we close that strategy to new clients, which impacts our ability to grow AUM. We have prioritized, and will continue to prioritize, investment results over asset accumulation. Currently, our Small-Mid Cap strategy is closed to new investors.

We estimate capacity of \$25 - 35 billion for our existing domestic equity strategies, at least \$10 billion for our International and Global strategies and at least \$40 billion for our existing fixed income strategies. 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 across strategies. Our firm level capacity could increase in the event we develop new products or strategies.

Distribution Channels

The Company's investment advisory services are distributed through multiple channels. Below is a summary of our AUM by distribution channel for the five years ended December 31, 2019:

(in millions)	AUM by Distribution Channel As of December 31,				
	2019	2018	2017	2016	2015
Proprietary funds:					
Registered investment advisor	\$ 3,603	\$ 3,243	\$ 4,010	\$ 3,508	\$ 2,723
Independent broker-dealer	3,563	2,900	3,581	2,922	2,329
Wirehouse	3,026	2,319	2,660	2,011	1,963
Bank Trust	2,907	2,672	3,456	3,175	2,735
Defined contribution	2,723	1,904	1,840	1,535	1,218
Other	326	402	427	467	537
Total proprietary funds	16,148	13,440	15,974	13,618	11,505
Sub-advised funds	2,029	1,358	1,518	1,445	665
Separately managed accounts:					
Institutional consultant	2,397	2,122	2,357	2,074	2,370
Financial intermediary	1,777	1,506	1,691	1,358	1,474
Direct	1,048	682	777	886	827
Total separately managed accounts	5,222	4,310	4,825	4,318	4,671
Total AUM	\$ 23,399	\$ 19,108	\$ 22,317	\$ 19,381	\$ 16,841

Growth Strategy

The Company's growth strategy centers around creating a client experience that enables investors to have better outcomes over the long-term. This includes generating strong investment performance as well as providing exceptional service. We believe finding the right clients who share our long-term outlook will contribute to better outcomes.

Our approach to growth begins with our teams working with professional buyers (consultants and national accounts). We believe having strong relationships with these gatekeepers allows greater access to our strategies as well as efficient and scalable growth. We have increased our business development professionals working with financial advisors. We identify advisors across the Registered Investment Advisor ("RIA"), Wirehouse, Independent Broker-Dealer ("IBD") and Bank Trust channels who have broad access to our full suite of strategies and align with our philosophy and time horizon. Today, this results in significant commitment to the RIA and Bank Trust channels.

In addition to our focus on serving the consultant community, we concentrate our service and future partnership opportunities in the institutional channel with foundations, endowments, defined benefit pension plans, trusts, corporations, state and local governments. As our fixed income and international strategies mature, we will continue to increase our alignment and growth prospects in the institutional channel.

We have taken additional steps to integrate custom communications into the overall client experience. We have increased our content marketing efforts to ensure we can communicate to all clients across all channels. We believe this will be crucial for client satisfaction, future growth, retention and operational efficiency.

Fund Administration Activities

The Company provides fund administration services to the Funds. Fund administration services are broadly defined in our administration agreements with the Funds 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.

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 non-U.S. 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. If an adviser fails to comply with 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. 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 Securities and Exchange Commission (“SEC”) under 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 of the Funds are registered with the SEC under the Investment Company Act of 1940, as amended, 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.

DHCM is a “fiduciary” under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), with respect to benefit plan clients and, therefore, 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 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 Funds

The Company is highly dependent on our contractual relationships with the Funds. If any of our advisory or administration agreements with the Funds were terminated, not renewed, or amended to reduce fees, we would be materially and adversely affected. We generated approximately 77%, 79% and 80% of our 2019, 2018 and 2017 revenues, respectively, from our advisory and administrative contracts with the Funds. We believe we have a strong relationship with the Funds and their board of trustees, and we have no reason to believe that these advisory or administration contracts will not be renewed in the future; however, there is no assurance that the Funds will choose to continue their relationships with the Company. Please see Item 1A for risk factors regarding this relationship.

Employees

As of December 31, 2019, the Company employed 129 full-time equivalent employees. As of December 31, 2018, the number of full-time equivalent employees was 125. We believe we have a strong relationship with our employees. Our employee count has grown year-over-year 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, Current Reports on Form 8-K and amendments to those reports that we file or furnish from time-to-time

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. 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, and 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 Annual Report on Form 10-K, 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, and 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.

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

If we fail to deliver acceptable investment results for our clients, both in the short and long term, we could experience diminished investor interest and a decreased level of AUM. Adverse opinions of the funds that we 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 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.

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

Our success depends on highly skilled personnel, including portfolio managers, research analysts, and management, many of whom have specialized expertise and extensive experience in the investment management industry. Financial services professionals are in high demand, and we face significant competition for qualified employees. Other than our Chief Executive Officer, our employees do not have employment contracts and generally can terminate their employment at any time. We may not 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.

Our AUM, which impacts revenue, is subject to significant fluctuations.

A large majority of our revenue is calculated as a percentage of AUM or is related to the general performance of the equity securities markets. A decline in securities prices or in the sale of investment products, or an increase in fund redemptions, generally will reduce revenue and net income. Financial market declines will 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.

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.

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, 2019, we have closed one investment strategy 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.

Our investment approach may underperform other investment approaches during certain market conditions.

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 overlap in 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.

We are subject to substantial competition in all aspects of our business.

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

- asset management firms;
- mutual fund companies;
- commercial banks and thrift institutions;
- insurance companies;
- exchange traded funds;
- hedge funds; and
- brokerage and investment banking firms.

Many of 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.

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.

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.

A significant portion of the Company’s revenues are based on advisory and administrative agreements with the Funds that are subject to termination without cause and on short notice.

The Company is highly 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 77%, 79%, and 80% of our 2019, 2018 and 2017 revenues, respectively, from our advisory and administrative contracts with the Funds, including 24%, 22%, and 13% from the advisory contracts with the Diamond Hill Long-Short Fund, the Diamond Hill Large Cap Fund, and the Diamond Hill Small-Mid Cap Fund, respectively, during 2019. The loss of any of the Diamond Hill Long-Short Fund, the Diamond Hill Large Cap Fund, or the Diamond Hill Small-Mid Cap Fund contracts would have a material adverse effect on the Company. We believe we have a strong relationship with the Funds and their boards of trustees, 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.

Our investment income and asset levels may be negatively impacted by fluctuations in our investment portfolio.

We currently have a substantial portion of our assets invested in Company-sponsored investments. All of these investments are subject to market risk and our non-operating investment income could be adversely affected by adverse market performance. Fluctuations in investment income are expected to occur in the future.

Changes in tax laws and unanticipated tax obligations could have an adverse impact on our financial condition, results of operations and cash flow.

We are subject to federal, state and local income taxes in the United States. Tax authorities may disagree with certain positions we have taken or implement changes in tax policy, which may result in the assessment of additional taxes. We regularly assess the appropriateness of our tax positions and reporting. We cannot provide assurance, however, that we will accurately predict the outcomes of audits, and the actual outcomes of these audits could be unfavorable.

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 and inadvertent 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 theft or corruption of information. In addition, we share information with third parties upon whom we rely for various functions. The systems of such third parties also are vulnerable to cyber threats. Attacks can come from unrelated third parties through the internet, from access to hardware removed from our premises or those of third parties or from employees acting intentionally or inadvertently.

Cyber incidents can involve deliberate attacks designed to corrupt our information systems and make them unusable by us to operate our business; thefts of information used by the perpetrators for gain in numerous ways; or inadvertent releases of information by employees or third parties with whom we do business.

Cyber-attacks that corrupt our information systems and make them unusable by us could impair our ability to trade securities in our clients' accounts. Corruption of the systems of our third-party vendors could impact the Company to the same extent as corruption of our own systems. If information about our employees is intentionally stolen or inadvertently made public, that information could be used to commit identity theft, obtain credit in an employee's name or steal from an employee. If information about our business is obtained by unauthorized persons, whether through intentional attacks or inadvertent releases of information, it could be used to harm our competitive position.

Whether information is corrupted, stolen or inadvertently disclosed, and regardless of the nature of the information, whether it be proprietary information or personal information about clients or employees, the results could be multiple and materially harmful to us.

- Our reputation could be harmed, resulting in the loss of clients, vendors and employees or making payments or concessions to such persons to maintain our relationships with them.
- Our inability to operate our business fully, even if temporarily, and thus fulfill contracts with clients or vendors could result in terminations of contracts and loss of revenue.
- Harm suffered by clients or vendors whose contracts we have breached, or by clients, vendors or employees whose information is compromised, could result in costly litigation against us.
- Our need to focus attention on remediation of a cyber problem could take our attention away from the operation of our business, resulting in lost revenue.

- We could incur costs to repair systems made inoperable by a cyber-attack and to make changes to our systems to reduce future cyber threats. Those changes could include obtaining additional technologies as well as employing additional personnel and training employees.
- The interruption of our business or theft of proprietary information could harm our ability to compete.

All of the above potential results of a cyber incident could have a material adverse effect on the Company's business, financial condition and results of operations.

We may not be able to adapt to technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers while reducing costs. Our future success depends, in part, upon our ability to address customer needs by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological changes affecting the financial services industry could negatively affect our growth, revenue and profit.

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, 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. 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 of our shares.

Our insurance policies may not cover all losses and costs to which we may be exposed.

We carry insurance in amounts and under terms that we believe are appropriate. Our insurance may not cover all liabilities and losses to which we may be exposed. Certain insurance coverage may not be available or may be prohibitively expensive in future periods. As our insurance policies come up for renewal, we may need to assume higher deductibles or pay higher premiums, which could have an adverse impact on our results of operations and financial condition.

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.

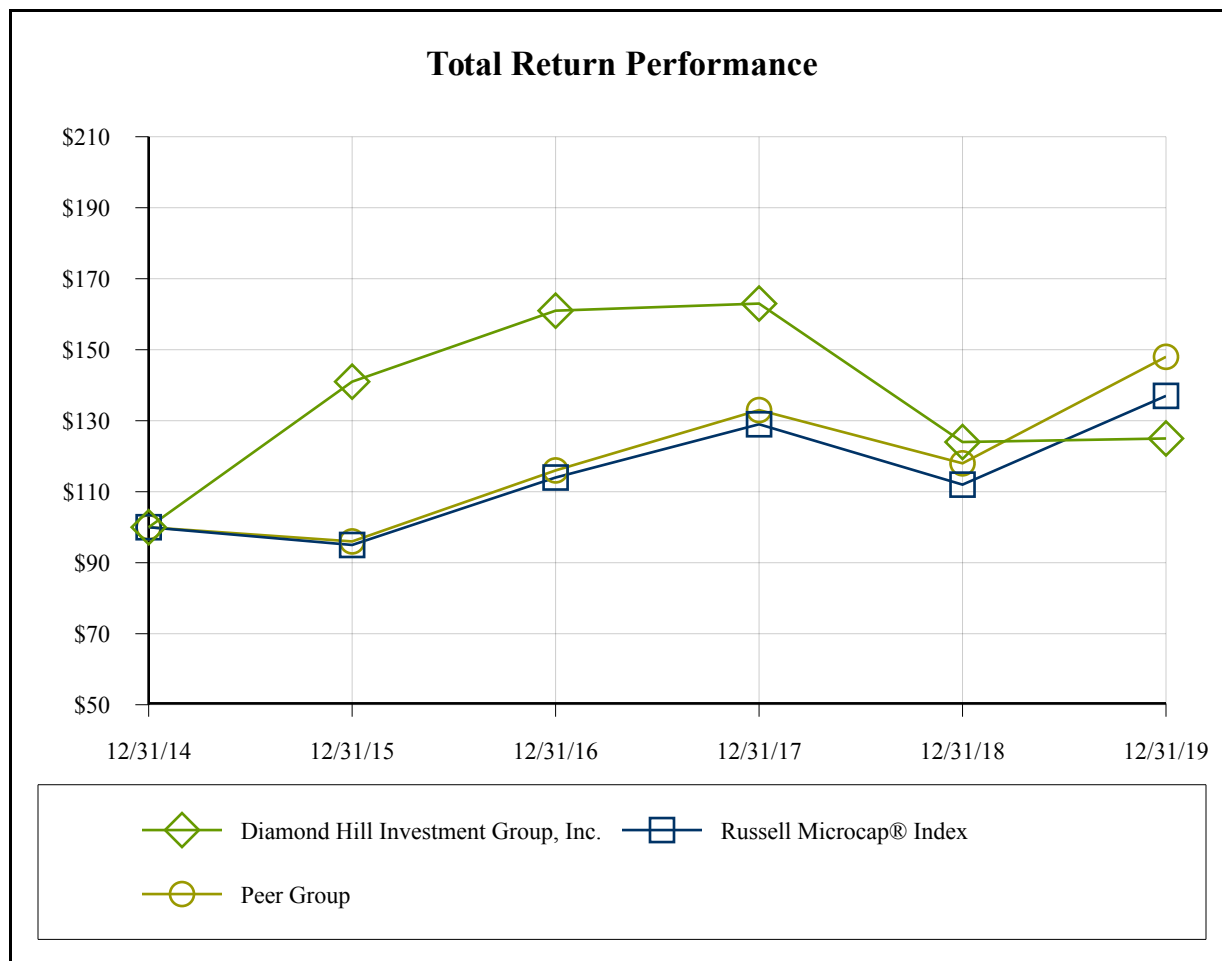
ITEM 4. Mine Safety Disclosures

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, 2019. The graph assumes that the value of the investment in our common shares and each index was \$100 on December 31, 2014. 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.



	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	Cumulative 5 Year Total Return
Diamond Hill Investment Group, Inc.	\$100	\$141	\$161	\$163	\$124	\$125	25%
Russell Microcap® Index	\$100	\$95	\$114	\$129	\$112	\$137	37%
Peer Group*	\$100	\$96	\$116	\$133	\$118	\$148	48%

* The Peer Group is based upon all publicly traded 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.; Affiliated Managers Group, Inc.; Artisan Partners Asset Management Inc.; Cohen & Steers, Inc.; Federated Investors, Inc.; GAMCO Investors, Inc.; Hennessy Advisors, 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 daily close prices during each quarter of 2019 and 2018:

Quarter ended:	2019			2018		
	High Price	Low Price	Dividend Per Share	High Price	Low Price	Dividend Per Share
March 31	\$ 158.74	\$ 133.52	\$ —	\$ 215.48	\$ 198.91	\$ —
June 30	\$ 148.30	\$ 137.73	\$ —	\$ 203.54	\$ 189.30	\$ —
September 30	\$ 142.80	\$ 127.18	\$ —	\$ 197.40	\$ 162.70	\$ —
December 31	\$ 149.60	\$ 132.70	\$ 9.00	\$ 177.08	\$ 141.10	\$ 8.00

Due to the relatively low trading volume of our shares, bid/ask spreads can be 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, 2019 and 2018, approximately 4,384,590 and 2,472,251, 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, 2019 was 236, 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 following table sets forth information regarding our current common share repurchase program (the "Repurchase Program") 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 2019:

Period	Total Number of Shares Purchased for Employee Tax Withholdings ^(a)	Total Number of Shares Purchased as part of Publicly Announced Program ^(b)	Average Price Paid Per Share Purchased Under the Program	Purchase Price of Shares Purchased Under the Program	Aggregate Purchase Price Yet To Be Purchased Under the Program
October 1, 2019 through October 31, 2019	2,540	18,636	\$ 134.17	\$ 2,500,452	\$ 17,031,238
November 1, 2019 through November 30, 2019	—	21,172	\$ 145.46	\$ 3,079,711	\$ 13,951,527
December 1, 2019 through December 31, 2019	—	70,543	\$ 140.77	\$ 9,930,429	\$ 4,021,098
Total	2,540	110,351	\$ 140.56	\$ 15,510,592	\$ 4,021,098

- (a) The Company regularly withholds shares for tax payments due upon employee Restricted Stock vestings. During the quarter ended December 31, 2019, the Company purchased 2,540 shares for employee tax withholdings at an average price paid per share of \$138.13.
- (b) The Company's current share Repurchase Program was announced on September 25, 2018. Our board of directors authorized management to repurchase up to \$50,000,000 of the Company's common shares in the open market and in private transactions in accordance with applicable securities laws. The Company's share Repurchase Program will expire in September 2020, or will end earlier upon the repurchase of all shares authorized under the program.

The Company has entered into a Rule 10b5-1 repurchase plan in connection with its Repurchase Program. This plan is intended to qualify for the safe harbor under Rule 10b5-1 of the Exchange Act. A Rule 10b5-1 plan allows a company to purchase its shares at times when it would not ordinarily be in the market due to its trading policies or the possession of material nonpublic information. Purchases may be made in the open market or through privately negotiated transactions. Purchases in the open market will be made in compliance with Rule 10b-18 under the Exchange Act. Because the repurchases under the 10b5-1 plan are subject to specified parameters and certain price, timing and volume restraints specified in the plan, there is no guarantee as to the exact number of shares that will be repurchased, or that there will be any repurchases at all pursuant to the Repurchase Program.

As of February 2020, the Company had repurchased all of the \$50 million authorized under the Repurchase Program.

ITEM 6. Selected Financial Data

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

(in thousands, except per share data)	For the Years Ended December 31,				
	2019	2018	2017	2016	2015
Income Statement Data:					
Total revenue	\$ 136,624	\$ 145,628	\$ 145,202	\$ 136,103	\$ 124,426
Compensation and related costs, excluding deferred compensation expense	60,264	55,975	52,474	50,428	48,185
Deferred compensation expense (benefit)	5,977	(2,121)	2,382	1,837	(234)
Other expenses	22,448	20,518	23,345	20,769	17,755
Total operating expenses	88,689	74,372	78,201	73,034	65,706
Net operating income	47,935	71,256	67,001	63,069	58,720
Operating profit margin	35%	49%	46%	46%	47%
Investment income (loss), net	30,507	(6,273)	14,018	7,517	(737)
Income tax expense	(18,688)	(18,669)	(29,417)	(26,668)	(20,909)
Net income	59,754	46,314	51,602	46,594	37,074
Net income attributable to common shareholders	54,959	47,376	49,989	46,052	37,074
Per Share Information:					
Basic earnings	\$ 15.99	\$ 13.49	\$ 14.49	\$ 13.52	\$ 11.31
Diluted earnings	15.99	13.48	14.48	13.49	11.03
Cash dividend declared	9.00	8.00	7.00	6.00	5.00
Weighted Average Shares Outstanding					
Basic	3,437	3,512	3,449	3,407	3,278
Diluted	3,437	3,515	3,452	3,413	3,360
Ending shares outstanding	3,295	3,499	3,470	3,412	3,414
	At December 31,				
	2019	2018	2017	2016	2015
Balance Sheet Data (in thousands):					
Total cash and corporate investments held directly by DHCM	\$ 187,189	\$ 196,545	\$ 171,339	\$ 136,290	\$ 109,966
Total assets	272,664	325,728	250,388	199,718	145,187
Total liabilities	65,629	67,472	57,868	46,653	39,873
Redeemable noncontrolling interest	14,179	62,680	20,076	13,841	—
Shareholders' equity	192,856	195,576	172,444	139,224	105,314
Book value per share	\$ 58.54	\$ 55.89	\$ 49.69	\$ 40.81	\$ 30.84
Assets Under Management (in millions)	23,399	19,108	22,317	19,381	16,841
Average Assets Under Management (in millions)	21,653	21,950	20,876	17,851	16,415
Net Client Inflows (Outflows) (in millions)	(677)	(1,102)	425	164	1,467

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

In this Item 7, we discuss and analyze the Company's 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 Annual Report on Form 10-K.

Business Environment

The performance of the U.S. and international equity markets, as well as the U.S. fixed income market, may have a meaningful impact on our operations and financial position.

Equity Markets

Trade tensions between the U.S. and China dominated headlines throughout the year amid concerns about tariffs and a potential slowdown in global economic growth. Monetary policy also continued to be a major theme, with the Federal Reserve reversing three of the four 2018 rate hikes and resuming balance sheet expansion to placate concerns over money market volatility. The European Central Bank lowered rates and restarted a quantitative easing program in the second half of 2019. Equity markets finished the year strong, with the Russell 1000 Index returning 31.43% for the year, the strongest annual return for the Index since 2013 and the second-best return since 1997.

Fixed Income Markets

The Federal Reserve reversed three of the four 2018 rate hikes and resumed balance sheet expansion in the fourth quarter. The most meaningful bout of volatility was triggered by the trade war and related fears of slowing global growth. Fixed income markets generated some of their best performance in the past decade driven by declining real yields and risk premia and stable inflation expectations. The Bloomberg Barclays U.S. Aggregate Bond Index returned 8.72%, its best since 2002, while the Bloomberg Barclays Investment Grade Corporate Index returned 14.54%, its best year since 2009. The ICE BofA U.S. High Yield Index returned 14.41% making 2019 a rare year in which both Treasuries and high yield bonds generated strong returns.

Industry Update

The asset management industry faces several challenging headwinds, including investor demand for passive investments and continued downward fee pressure. Investors' preference for lower cost passive investment strategies has reduced investment in both active investment strategies as well as all other strategies which are not in the lowest-cost quintile of peers. In 2019, passively managed US Equity Assets exceeded actively managed US Equity Assets for the first time. These trends have contributed toward increased concentration of total industry assets and continued net outflows from active investment strategies. The share of mutual fund and exchange traded fund assets at the five largest fund complexes is now over 50%. As firms seek to combat these trends, they are making increasing investments into technology, data, and analytics capabilities to seek efficiency across their businesses. Combined, these evolving product and demand trends contribute to the broad margin pressure across our industry.

While some of these dynamics make it difficult for firms to succeed, we believe we are well-positioned to navigate these headwinds and adapt to the changing industry landscape. Our commitment to managing our portfolios with a strict capacity discipline protects our ability to deliver excellent investment outcomes to clients. We continue to believe we can deliver market-beating returns over five-year periods and longer through active portfolio management, our long-term focus, and shared investment philosophy. We're confident the combination of capacity discipline, alignment with our clients, and strong investment results will ensure our strategies are attractive options to help investors achieve their investment outcomes.

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,		
	2019	2018	2017
Ending AUM (in millions)	\$ 23,399	\$ 19,108	\$ 22,317
Average AUM (in millions)	21,653	21,950	20,876
Net cash inflows (outflows) (in millions)	(677)	(1,102)	425
Total revenue (in thousands)	136,624	145,628	145,202
Net operating income	47,935	71,256	67,001
Net operating income, as adjusted ^(a)	53,912	69,134	69,383
Average advisory fee rate	0.59%	0.62%	0.64%
Operating profit margin	35%	49%	46%
Operating profit margin, as adjusted ^(a)	39%	47%	48%

(a) Net operating income, as adjusted, and Operating profit margin, as adjusted, are non-GAAP (as defined below) performance measures. See Use of Supplemental Data as Non-GAAP Performance Measure section within this Annual Report on Form 10-K.

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 our AUM. Fees are recognized in the period that the Company manages these assets.

Our revenues are highly dependent on both the value and composition of AUM. The following is a summary of our AUM by product and investment objective, and a roll-forward of the change in AUM, for the years ended December 31, 2019, 2018, and 2017:

(in millions)	Assets Under Management As of December 31,		
	2019	2018	2017
Proprietary funds	\$ 16,148	\$ 13,440	\$ 15,974
Sub-advised funds	2,029	1,358	1,518
Separately managed accounts	5,222	4,310	4,825
Total AUM	\$ 23,399	\$ 19,108	\$ 22,317

(in millions)	Assets Under Management by Investment Strategy As of December 31,		
	2019	2018	2017
Small Cap	\$ 795	\$ 1,048	\$ 1,525
Small-Mid Cap	3,243	2,770	3,528
Mid Cap	569	143	130
Large Cap	12,344	9,637	10,867
All Cap Select	528	432	444
Long-Short	3,605	3,767	4,980
Global/International	35	18	6
Total Equity	21,119	17,815	21,480
Short Duration Fixed Income	809	579	313
Core Fixed Income	300	55	44
Long Duration Fixed Income	52	52	—
Corporate Credit	1,147	757	668
High Yield	135	54	31
Total Fixed Income	2,443	1,497	1,056
Total Equity and Fixed Income	23,562	19,312	22,536
(Less: Investments in affiliated funds) ^(a)	(163)	(204)	(219)
Total AUM	\$ 23,399	\$ 19,108	\$ 22,317

(a) Certain of the Funds own shares of the Diamond Hill Short Duration Total Return Fund. The Company reduces its total AUM by these investments held in this affiliated fund.

(in millions)	Change in Assets Under Management For the Year Ended December 31,		
	2019	2018	2017
AUM at beginning of the year	\$ 19,108	\$ 22,317	\$ 19,381
Net cash inflows (outflows)			
proprietary funds	(499)	(978)	843
sub-advised funds	216	(25)	(164)
separately managed accounts	(394)	(99)	(254)
	(677)	(1,102)	425
Net market appreciation (depreciation) and income	4,968	(2,107)	2,511
Increase (decrease) during the year	4,291	(3,209)	2,936
AUM at end of the year	\$ 23,399	\$ 19,108	\$ 22,317

(in millions)	Net Cash Inflows (Outflows) Further Breakdown For the Year Ended December 31,		
	2019	2018	2017
Net cash inflows (outflows)			
Equity	\$ (1,515)	\$ (1,554)	\$ 272
Fixed Income	838	452	153
	\$ (677)	\$ (1,102)	\$ 425

Our fixed income strategies continued to see strong growth in 2019 with High Yield reaching its five-year anniversary and Core Bond and Short-Duration reaching three years. Each of our fixed income strategies have met long-term performance objectives compared to peers and benchmarks. Additionally, we supplemented our distribution efforts with dedicated resources in marketing and branding specifically for our fixed income strategies. We believe these investments will continue to benefit the broader organization as we expand our efforts in the future.

Equity flows experienced a challenging 2019 following a difficult 2018 period. The net equity outflows can primarily be attributed to underperformance in our closed strategies, as \$1.4 billion of the net outflows in 2019 and 2018 were from our Small Cap, Small-Mid Cap and Long-Short strategies. As a result we reopened the Small Cap and Long-Short strategies during 2019. Additionally, we had net outflows of \$0.2 billion in our Large Cap and All-Cap Select strategies in the fourth quarter due to a large client transitioning their account to a Unified Managed Account (“UMA”), which is further discussed below. Though the \$0.2 billion is no longer included in AUM, as these assets are not under our discretion, we continue to receive investment advisory fees on the UMA accounts for our advisory services.

UMA Programs

The Company provides strategy model portfolio to sponsors of UMA programs. We do not have discretionary investment authority over individual client accounts in UMA programs and therefore these assets are not included in our AUM. The Company provides an updated strategy model portfolio to the sponsors on a periodic basis. The Company is paid for its services by the program sponsor at a pre-determined rate based on assets in the program. UMA program assets were \$0.9 billion, \$0.5 billion and \$0.4 billion as of December 31, 2019, 2018 and 2017, respectively.

Consolidated Results of Operations

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

<u>(in thousands, except per share amounts and percentages)</u>	<u>2019</u>	<u>2018</u>	<u>% Change</u>	<u>2018</u>	<u>2017</u>	<u>% Change</u>
Total revenue	\$ 136,624	\$ 145,628	(6)%	\$ 145,628	\$ 145,202	NM
Net operating income	47,935	71,256	(33)%	71,256	67,001	6%
Net operating income, as adjusted ^(a)	53,912	69,134	(22)%	69,134	69,383	NM
Net income attributable to common shareholders	54,959	47,376	16%	47,376	49,989	(5)%
Earnings per share attributable to common shareholders (diluted)	\$ 15.99	\$ 13.48	19%	\$ 13.48	\$ 14.48	(7)%
Operating profit margin	35%	49%	NM	49%	46%	NM
Operating profit margin, as adjusted	39%	47%	NM	47%	48%	NM

(a) Net operating income, as adjusted, and operating profit margin, as adjusted, are non-GAAP (as defined below) performance measures. See Use of Supplemental Data as Non-GAAP Performance Measure section within this Annual Report on Form 10-K.

Year Ended December 31, 2019 compared with Year Ended December 31, 2018

The Company generated net income attributable to common shareholders of \$55.0 million (\$15.99 per diluted share) for the year ended December 31, 2019, compared with net income attributable to common shareholders of \$47.4 million (\$13.48 per diluted share) for the year ended December 31, 2018. Revenue decreased \$9.0 million period over period primarily due to a decrease in the average advisory fee rate and a decrease in average AUM. Operating expenses increased by \$14.3 million primarily related to a \$8.1 million change in deferred compensation expense (benefit) and a \$4.3 million increase in compensation and related costs, excluding deferred compensation expense. The gain (loss) on deferred compensation plan investments increases (decreases) deferred compensation expense (benefit) and is included in operating income. Deferred compensation expense (benefit) is offset by an equal amount in investment income (loss) below net operating income on the consolidated statements of income statement, and thus has no impact on net income attributable to the Company.

The Company recorded non-operating income of \$30.5 million in 2019 due to market appreciation from our investments compared to a non-operating loss of \$6.3 million in 2018 due to market depreciation from our investments.

Income tax expense was consistent from 2018 to 2019 due primarily to an increase of pretax income which was offset by the reduction in the effective rate from 28.7% to 23.8%. The decrease in the effective tax rate was primarily due to uncertain state tax positions of approximately \$3.0 million recorded in 2018. The effective tax rate of 23.8% differed from the federal statutory tax rate of 21% due primarily to additional income tax expense recorded for the state and local jurisdictions in which we do business. This is partially offset by the benefit attributable to redeemable noncontrolling interests. The provision for income taxes includes a benefit attributable to the fact that the Company's operations include the Consolidated Funds which are not subject to federal income taxes. Accordingly, a portion of the Company's earnings are not subject to corporate tax levels. Absent the benefit attributable to redeemable noncontrolling interests, the effective tax rate ("unconsolidated effective tax rate") would have been 25.4%.

Operating profit margin was 35% for 2019 and 49% for 2018. Operating profit margin, as adjusted, was 39% for 2019 and 47% for 2018. Operating profit margin, as adjusted, is a non-GAAP performance measure. 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. Our portfolio managers are compensated based on long-term performance, so when revenues and long-term performance are misaligned, our operating margins can fluctuate materially.

See Use of Supplemental Data as Non-GAAP Performance Measure section within this Annual Report on Form 10-K.

Year Ended December 31, 2018 compared with Year Ended December 31, 2017

The Company generated net income attributable to common shareholders of \$47.4 million (\$13.48 per diluted share) for the year ended December 31, 2018, compared with net income attributable to common shareholders of \$50.0 million (\$14.48 per diluted share) for the year ended December 31, 2017. Revenue increased \$0.4 million period over period primarily due to an increase in average AUM partially offset by a reduction in the administration fee rates paid by the Funds. Operating expenses decreased by \$3.8 million primarily related to a decrease in compensation and related costs and general and administrative expenses. Deferred compensation expense (benefit) is offset by an equal amount in investment income (loss) below net operating income on the consolidated statements of income statement, and thus has no impact on net income attributable to the Company.

The Company recorded a non-operating loss of \$6.3 million in 2018 due to market depreciation from our investments compared to non-operating income of \$14.0 million in 2017 due to market appreciation and dividend income from our investments.

Income tax expense decreased \$10.7 million from 2017 to 2018 due to the reduction of the effective tax rate from 36.3% to 28.7%. The reduction was primarily due to the impact of the Tax Cut and Jobs Act of 2017, which reduced our corporate income tax rate from 35% to 21% year over year. The effective tax rate of 28.7% differed from the federal statutory tax rate of 21% due primarily to additional income tax expense recorded for the state and local jurisdictions in which we do business.

Operating profit margin was 49% for 2018 and 46% for 2017. Operating profit margin, as adjusted, was 47% for 2018 and 48% for 2017.

See Use of Supplemental Data as Non-GAAP Performance Measure section within this Annual Report on Form 10-K.

Revenue

(in thousands, except percentages)	2019	2018	% Change	2018	2017	% Change
Investment advisory	\$ 128,009	\$ 135,318	(5)%	\$ 135,318	\$ 132,688	2%
Mutual fund administration, net	8,615	10,310	(16)%	10,310	12,514	(18)%
Total	136,624	145,628	(6)%	145,628	145,202	—%

Revenue for the Year Ended December 31, 2019 compared with Year Ended December 31, 2018

Investment Advisory Fees. Investment advisory fees decreased by \$7.3 million, or 5%, from the year ended December 31, 2018 to the year ended December 31, 2019. Investment advisory fees are calculated as a percentage of the market value of client accounts at contractual fee rates, which vary by investment product. The decrease in investment advisory fees was driven by a reduction in the average advisory fee rate from 0.62% in 2018 to 0.59% in 2019 and a decrease of 1% in average AUM year-over-year. The decrease in average advisory fee rate was driven by an increase in the mix of assets held in lower fee rate strategies during the year ended December 31, 2019, compared to the year ended December 31, 2018. For the year ended December 31, 2019, the average advisory fee rates for equity and fixed income strategies were 0.61% and 0.41%, respectively. For the year ended December 31, 2018 the average advisory fee rates for equity and fixed income strategies were 0.63% and 0.48%, respectively.

Mutual Fund Administration Fees. Mutual fund administration fees decreased \$1.7 million, or 16%, from the year ended December 31, 2018 to the year ended December 31, 2019. Mutual fund administration fees are calculated as a percentage of average Funds' AUM. The decrease was due to reductions in the administration fee rates received from the Funds, a 4% decrease in average Funds' AUM in 2019 and an increase in administrative expenses paid on behalf of the funds.

The table below summarizes the decreases in the administration fee rates during the periods indicated:

	Class A & C	Class I	Class Y
1/1/2018 - 2/27/2018	0.23%	0.18%	0.08%
2/28/2018 - 12/31/2019	0.21%	0.17%	0.05%

Revenue for the Year Ended December 31, 2018 compared with Year Ended December 31, 2017

Investment Advisory Fees. Investment advisory fees increased by \$2.6 million, or 2%, from the year ended December 31, 2017 to the year ended December 31, 2018. Investment advisory fees are calculated as a percentage of the market value of client accounts at contractual fee rates, which vary by investment product. The increase in investment advisory fees was driven by an increase of 5% in average AUM year-over-year and was partially offset by a reduction in the average advisory fee rate from 0.64% in 2017 to 0.62% in 2018. The decrease in average advisory fee rate was driven by an increase in the mix of assets held in lower fee rate strategies during the year ended December 31, 2018, compared to the year ended December 31, 2017. For the year ended December 31, 2018, the average advisory fee rates for equity and fixed income strategies were 0.63% and 0.48%, respectively. For the year ended December 31, 2017 the average advisory fee rates for equity and fixed income strategies were 0.64% and 0.52%, respectively.

Mutual Fund Administration Fees. Mutual fund administration fees decreased \$2.2 million, or 18%, from the year ended December 31, 2017 to the year ended December 31, 2018. Mutual fund administration fees are calculated as a percentage of average Funds' AUM. The decrease was due to reductions in the administration fee rates received from the Funds and an increase in shareholder servicing expenses and required shareholder mailings that DHCM pays on behalf of the Funds. This was partially offset by the 5% increase in average Funds' AUM from 2018 to 2017. The table below summarizes the decreases in the administration fee rates during the periods indicated:

	Class A & C	Class I	Class Y
1/1/2017 - 5/31/2017	0.24%	0.19%	0.09%
6/1/2017 - 2/27/2018	0.23%	0.18%	0.08%
2/28/2018 - 12/31/2018	0.21%	0.17%	0.05%

Expenses

(in thousands, except percentages)	2019	2018	% Change	2018	2017	% Change
Compensation and related costs, excluding deferred compensation expense	\$ 60,264	\$ 55,975	8%	\$ 55,975	\$ 52,474	7%
Deferred compensation expense (benefit)	5,977	(2,121)	NM	(2,121)	2,382	NM
General and administrative	13,278	11,649	14%	11,649	14,037	(17)%
Sales and marketing	5,867	5,243	12%	5,243	4,994	5%
Mutual fund administration	3,303	3,626	(9)%	3,626	4,313	(16)%
Total	88,689	74,372	19%	74,372	78,200	(5)%

Expenses for the Year Ended December 31, 2019 compared with Year Ended December 31, 2018

Compensation and Related Costs, Excluding Deferred Compensation Expense. Employee compensation and benefits increased by \$4.3 million from the year ended December 31, 2018 to the year ended December 31, 2019. This increase is due to an increase in salary and related benefits of \$3.0 million and an increase in incentive compensation of \$1.3 million. We had 128 average full-time equivalent employees for 2019, compared to 120 for 2018. Incentive compensation expense can fluctuate significantly period over period as we evaluate investment performance, individual performance, Company performance and other factors.

Deferred Compensation Expense (Benefit). Deferred compensation expense was \$6.0 million for the year ended December 31, 2019 due to market appreciation on our deferred compensation investments compared to deferred compensation (benefit) of \$(2.1) million for the year ended December 31, 2018 due to market depreciation on our deferred compensation investments. The gain (loss) on deferred compensation plan investments increases (decreases) deferred compensation expense (benefit) and is included in operating income. Deferred compensation expense is offset by an equal amount in investment income below net operating income on the consolidated statements of income statement, and thus has no impact on net income attributable to the Company.

General and Administrative. General and administrative expenses increased by \$1.6 million, or 14%, from the year ended December 31, 2018 to the year ended December 31, 2019. This increase is primarily due to increased corporate recruiting fees of \$1.0 million, an increase in market research and data expense of \$0.3 million, and an increase in software expense of \$0.3 million.

Sales and Marketing. Sales and marketing expenses increased by \$0.6 million, or 12%, from the year ended December 31, 2018 to the year ended December 31, 2019. The increase was due to our branding and public relations initiatives and additional sales data costs. For each of the years ended December 31, 2019 and 2018, approximately 56% and 65%, respectively, of sales and marketing expense is related to revenue sharing payments made to third party financial intermediaries.

Mutual Fund Administration. Mutual fund administration expenses decreased by \$0.3 million, or 9%, from the year ended December 31, 2018 to the year ended December 31, 2019. Mutual fund administration expenses consist of both variable and fixed expenses. The variable expenses are based on Fund AUM and the number of shareholder accounts. The decrease was primarily due to a reduction in outsourced administrative services for the Funds which was brought in-house during 2018 and a 4% decrease in average Funds' AUM from the year ended December 31, 2018 to the year ended December 31, 2019.

Expenses for the Year Ended December 31, 2018 compared with Year Ended December 31, 2017

Compensation and Related Costs, Excluding Deferred Compensation Expense. Employee compensation and benefits increased by \$3.5 million from the year ended December 31, 2017 to the year ended December 31, 2018. This increase is due to an increase in salary and related benefits of \$2.8 million and an increase in incentive compensation of \$1.2 million, partially offset by a decrease in restricted stock expense of \$0.4 million. We had 120 average full-time equivalent employees for 2018, compared to 114 for 2017. Incentive compensation expense can fluctuate significantly period over period as we evaluate investment performance, individual performance, Company performance and other factors.

Deferred Compensation Expense (Benefit). Deferred compensation (benefit) was \$(2.1) million for the year ended December 31, 2018 due to market depreciation on our deferred compensation investments compared to deferred compensation expense of \$2.4 million for the year ended December 31, 2017 due to market appreciation on our deferred compensation investments. The gain (loss) on deferred compensation plan investments increases (decreases) deferred compensation expense

(benefit) and is included in operating income. Deferred compensation expense is offset by an equal amount in investment income below net operating income on the consolidated statements of income statement, and thus has no impact on net income attributable to the Company.

General and Administrative. General and administrative expenses decreased by \$2.4 million, or 17%, from the year ended December 31, 2017 to the year ended December 31, 2018. This decrease is primarily due to a decrease in charitable donations of \$2.7 million and a decrease of \$0.7 million of consulting expense due to bringing more business functions in-house. The decrease was partially offset by increases in investment research expenses of \$0.5 million, depreciation expense of \$0.3 million and information technology expense of \$0.2 million.

Sales and Marketing. Sales and marketing expenses increased by \$0.2 million, or 5%, from the year ended December 31, 2017 to the year ended December 31, 2018. This increase was primarily due to additional payments made to third party financial intermediaries related to the sale of our proprietary funds. For each of the years ended December 31, 2018 and 2017, approximately 65% of sales and marketing expense is related to revenue sharing payments made to third party financial intermediaries.

Mutual Fund Administration. Mutual fund administration expenses decreased by \$0.7 million, or 16%, from the year ended December 31, 2017 to the year ended December 31, 2018. Mutual fund administration expenses consist of both variable and fixed expenses. The variable expenses are based on Fund AUM and the number of shareholder accounts. The decrease was primarily due to a reduction in outsourced administrative services for the Funds which was brought in-house during 2018.

Liquidity and Capital Resources

Sources of Liquidity

Our current financial condition is highly liquid, with a significant amount of our assets comprised of cash and cash equivalents, investments, accounts receivable, and other current assets. Our main source of liquidity is cash flows from operating activities, which are generated from investment advisory and mutual fund administration fees. Cash and cash equivalents, investments held directly by DHCM, accounts receivable, and other current assets represented \$211 million and \$216 million of total assets as of December 31, 2019 and 2018, 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 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 for operating expenses and seed capital to fund new and existing investment strategies.

Our 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. On September 25, 2018, we announced that our Board of Directors had authorized the Repurchase Program.

The authority to repurchase shares may be exercised from time to time as market conditions warrant and is subject to regulatory considerations. 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.

The following table summarizes the quarterly repurchase transactions made under the Repurchase Program since its inception:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share Purchased</u>	<u>Purchase Price of Shares Purchased</u>
Quarter Ended December 31, 2018	45,470	\$ 158.99	\$ 7,229,249
Quarter Ended March 31, 2019	53,645	147.40	7,907,055
Quarter Ended June 30, 2019	54,950	141.08	7,752,572
Quarter Ended September 30, 2019	57,207	132.49	7,579,435
Quarter Ended December 31, 2019	110,351	140.56	15,510,592
Total	<u>321,623</u>	\$ 142.96	<u>\$ 45,978,903</u>

While 2019 was the twelfth 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 \$24.00 per share from 2017 through 2019. The 2019, 2018, and 2017 special dividends reduced shareholders' equity by \$30.3 million, \$28.1 million, and \$24.3 million, respectively.

Working Capital

As of December 31, 2019, the Company had working capital of approximately \$177 million, compared to \$180 million at December 31, 2018. Working capital includes cash, accounts receivable, investments, direct investments in Consolidated Funds, and other current assets of DHCM, net of accounts payable and accrued expenses, accrued incentive compensation, deferred compensation and other current liabilities of DHCM.

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 investments as of December 31, 2019 and 2018:

	As of December 31,	
	2019	2018
Corporate Investments:		
Diamond Hill Core Bond Fund	\$ 43,691,925	\$ 37,197,134
Diamond Hill Research Opportunities Fund	16,223,519	12,912,291
Diamond Hill High Yield Fund	14,984,548	25,931,879
Diamond Hill Global Fund	11,073,515	8,482,790
Diamond Hill International Fund ^(a)	8,039,570	1,057,445
Diamond Hill Mid Cap Fund	—	15,035,251
Diamond Hill Valuation-Weighted 500 ETF ^(b)	—	11,497,699
Total Corporate Investments	94,013,077	112,114,489
Deferred Compensation Plan Investments in the Funds	30,342,204	22,387,874
Total investments held by DHCM	124,355,281	134,502,363
Redeemable noncontrolling interest in Consolidated Funds ^(c)	15,081,897	68,985,854
Total investments	\$ 139,437,178	\$ 203,488,217

(a) As of June 28, 2019, the Company converted the Diamond Hill International Equity Fund, L.P. into the Diamond Hill International Fund.

(b) The Diamond Hill Valuation-Weighted 500 ETF that the Company previously advised (the "ETF") closed effective April 5, 2019.

(c) The Company deconsolidated the ETF, Diamond Hill Core Bond Fund, and the Diamond Hill High Yield Fund during the year ended December 31, 2019, as the Company's ownership in each declined to less than 50%.

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. 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 year ended December 31, 2019, net cash provided by operating activities totaled \$57.0 million. Cash provided by operating activities was primarily driven by net income of \$59.8 million, the add back of share-based compensation of \$9.1 million, depreciation of \$1.2 million, net redemptions of securities held in the underlying investment portfolios of the Consolidated Funds of \$6.3 million, and the effect of other non-cash items and timing differences in the cash settlement of assets and liabilities of \$1.7 million. These cash inflows were partially offset by net gains on investments of \$21.1 million. Absent the operating cash flows of the Consolidated Funds, cash flow from operations would have been approximately \$53.5 million.

For the year ended December 31, 2018, net cash provided by operating activities totaled \$28.1 million. The changes in net cash provided by operating activities were primarily driven by net income of \$46.3 million, the add back of share-based compensation of \$8.9 million and depreciation of \$1.2 million, net losses on investments of \$14.3 million, and the effect of other non-cash items and timing differences in the cash settlement of assets and liabilities of \$9.6 million. These cash inflows were partially offset by the net purchases of trading securities held in the underlying investment portfolio of the Consolidated Funds of \$52.2 million. Absent the operating cash flows of the Consolidated Funds, cash flow from operations would have been approximately \$79.9 million.

For the year ended December 31, 2017, net cash provided by operating activities totaled \$60.9 million. The changes in net cash provided by operating activities were primarily driven by net income of \$51.6 million and the add back of share-based compensation of \$8.6 million and depreciation of \$0.9 million, and the effect of non-cash items and timing differences in the cash settlement of assets and liabilities of \$5.3 million. These cash inflows were partially offset by the net change in securities held in our Consolidated Funds underlying investment portfolios of \$5.5 million. Absent the operating cash flows of the Consolidated Funds, cash flow from operations would have been approximately \$64.3 million.

Cash Flows from Investing Activities

The Company's cash flows from investing activities consist primarily of capital expenditures and purchases and redemptions in our investment portfolio.

Cash flows provided by investing activities totaled \$10.9 million for the year ended December 31, 2019. The Company purchased corporate investments of \$14.4 million (inclusive of \$5.0 million of purchases into our deferred compensation plans) and made \$0.7 million of property and equipment purchases during the period. These cash outflows were offset by redemptions of corporate investments of \$48.6 million. The remaining change in reported cash flows from investing activities was attributable to \$22.7 million in net cash that was removed from our balance sheet due to the deconsolidation of the ETF during the period.

Cash flows used in investing activities totaled \$4.3 million for the year ended December 31, 2018. The Company purchased corporate investments of \$6.3 million and made \$0.8 million of property and equipment purchases during the period. These cash outflows were partially offset by redemptions of corporate investments of \$2.9 million.

Cash flows used in investing activities totaled \$18.6 million for the year ended December 31, 2017. The Company purchased corporate investments of \$21.0 million and made \$1.1 million of property and equipment purchases during the period. These cash outflows were partially offset by redemptions of corporate investments of \$3.6 million.

Cash Flows from Financing Activities

The Company's cash flows from financing activities consist primarily of the payment of special dividends, the repurchase of its common shares, shares withheld related to employee tax withholding and distributions to, or contributions from, redeemable noncontrolling interest holders.

For the year ended December 31, 2019, net cash used in financing activities totaled \$59.1 million, consisting of the payment of special dividends of \$30.3 million, the repurchase of the Company's common shares of \$38.7 million, and the value of shares withheld related to employee tax withholding of \$1.4 million. These financing outflows were partially offset by net subscriptions received from redeemable noncontrolling interest holders of \$11.3 million.

For the year ended December 31, 2018, net cash used in financing activities totaled \$16.0 million, consisting of the payment of special dividends of \$28.1 million, the repurchase of the Company's common shares of \$7.2 million, and the value of shares withheld related to employee tax withholding of \$1.9 million. These financing outflows were partially offset by net subscriptions received from redeemable noncontrolling interest holders of \$21.2 million.

For the year ended December 31, 2017, net cash used in financing activities totaled \$23.0 million, consisting of the payment of special dividends of \$24.3 million and the value of shares withheld related to employee tax withholding of \$5.0 million. These financing outflows were partially offset by net subscriptions received from redeemable noncontrolling interest holders of \$6.3 million.

Supplemental Consolidated Cash Flow Statement

The following table summarizes the condensed cash flows for the years ended December 31, 2019, 2018, and 2017 that are attributable to Diamond Hill Investment Group, Inc. and to the Consolidated Funds, and the related eliminations required in preparing the consolidated financial statements.

	Year Ended December 31, 2019			As reported on the Consolidated Statement of Cash Flows
	Cash flow attributable to Diamond Hill Investment Group, Inc.	Cash flow attributable to Consolidated Funds	Eliminations	
Cash flows from Operating Activities:				
Net Income	\$ 54,959,024	\$ 12,108,850	\$ (7,313,555)	\$ 59,754,319
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	1,164,207	—	—	1,164,207
Share-based compensation	9,081,421	—	—	9,081,421
Net (gains)/losses on investments	(16,263,168)	(12,108,850)	7,313,555	(21,058,463)
Net change in securities held by Consolidated Funds	—	6,286,645	—	6,286,645
Other changes in assets and liabilities	4,518,254	(2,780,140)	—	1,738,114
Net cash provided by operating activities	53,459,738	3,506,505	—	56,966,243
Net cash provided by (used in) investing activities	25,702,461	(22,723,853)	7,876,466	10,855,074
Net cash provided by (used in) financing activities	(70,416,005)	19,217,348	(7,876,466)	(59,075,123)
Net change during the period	8,746,194	—	—	8,746,194
Cash and cash equivalents at beginning of year	84,430,059	—	—	84,430,059
Cash and cash equivalents at end of year	\$ 93,176,253	\$ —	\$ —	\$ 93,176,253

	Year Ended December 31, 2018			As reported on the Consolidated Statement of Cash Flows
	Cash flow attributable to Diamond Hill Investment Group, Inc.	Cash flow attributable to Consolidated Funds	Eliminations	
Cash flows from Operating Activities:				
Net Income	\$ 47,375,829	\$ (2,677,977)	\$ 1,616,536	\$ 46,314,388
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	1,159,380	—	—	1,159,380
Share-based compensation	8,896,610	—	—	8,896,610
Net (gains)/losses on investments	13,235,941	2,677,977	(1,616,536)	14,297,382
Net change in securities held by Consolidated Funds	—	(52,168,968)	—	(52,168,968)
Other changes in assets and liabilities	9,202,427	429,372	—	9,631,799
Net cash provided by (used in) operating activities	79,870,187	(51,739,596)	—	28,130,591
Net cash provided by (used in) investing activities	(34,792,725)	—	30,531,828	(4,260,897)
Net cash provided by (used in) financing activities	(37,249,511)	51,739,596	(30,531,828)	(16,041,743)
Net change during the period	7,827,951	—	—	7,827,951
Cash and cash equivalents at beginning of year	76,602,108	—	—	76,602,108
Cash and cash equivalents at end of year	\$ 84,430,059	\$ —	\$ —	\$ 84,430,059

	Year Ended December 31, 2017			As reported on the Consolidated Statement of Cash Flows
	Cash flow attributable to Diamond Hill Investment Group, Inc.	Cash flow attributable to Consolidated Funds	Eliminations	
Cash flows from Operating Activities:				
Net Income	\$ 49,988,957	\$ 5,665,511	\$ (4,052,799)	\$ 51,601,669
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	888,197	—	—	888,197
Share-based compensation	8,582,069	—	—	8,582,069
Net (gains)/losses on investments	(8,118,039)	(5,665,511)	4,052,799	(9,730,751)
Net change in securities held by Consolidated Funds	—	(5,511,669)	—	(5,511,669)
Other changes in assets and liabilities	12,912,965	2,177,279	—	15,090,244
Net cash provided by (used in) operating activities	64,254,149	(3,334,390)	—	60,919,759
Net cash used in investing activities	(15,485,455)	—	(3,068,364)	(18,553,819)
Net cash provided by (used in) financing activities	(29,243,784)	3,221,712	3,068,364	(22,953,708)
Net change during the period	19,524,910	(112,678)	—	19,412,232
Cash and cash equivalents at beginning of year	57,077,198	112,678	—	57,189,876
Cash and cash equivalents at end of year	\$ 76,602,108	\$ —	\$ —	\$ 76,602,108

Selected Quarterly Information

Our unaudited quarterly results of operations for the years ended December 31, 2019 and 2018 are summarized below:

(in thousands, except per share data)	At or For the Quarter Ended							
	2019				2018			
	12/31	09/30	06/30	03/31	12/31	09/30	06/30	03/31
Assets under management (in millions)	\$ 23,399	\$ 22,203	\$ 21,612	\$ 20,880	\$ 19,108	\$ 22,629	\$ 21,827	\$ 21,929
Total revenue	35,908	34,592	33,545	32,579	34,446	37,471	35,928	37,782
Compensation and related costs, excluding deferred compensation expense	16,651	15,715	14,342	13,557	12,497	14,459	14,117	14,903
Deferred compensation expense (benefit)	1,925	357	1,283	2,412	(3,045)	983	456	(515)
Other expenses	5,368	5,763	5,840	5,476	5,207	5,114	5,005	5,190
Total operating expenses	23,944	21,835	21,465	21,445	14,659	20,556	19,578	19,578
Net operating income	11,964	12,757	12,080	11,134	19,787	16,915	16,350	18,204
Investment income, net	6,880	2,822	6,520	14,285	(13,488)	5,210	3,565	(1,559)
Income before taxes	18,844	15,579	18,600	25,419	6,299	22,125	19,915	16,645
Income tax expense	(4,321)	(4,062)	(4,442)	(5,863)	(4,223)	(5,727)	(5,017)	(3,702)
Net income	14,523	11,517	14,158	19,556	2,076	16,398	14,898	12,943
Net income attributable to common shareholders	13,414	11,417	13,195	16,933	4,809	15,208	14,370	12,989
Diluted EPS	\$ 3.99	\$ 3.35	\$ 3.79	\$ 4.84	\$ 1.37	\$ 4.31	\$ 4.08	\$ 3.72
Diluted weighted shares outstanding	3,364	3,412	3,478	3,497	3,514	3,532	3,520	3,492

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, 2019. 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. Because these obligations are primarily of a normal recurring nature, we expect to fund them from future cash flows from operations. Deferred compensation obligations includes compensation that will be paid out in future years and which will be funded by the related deferred compensation investments currently held on our consolidated balance sheets (see Note 7 to the consolidated financial statements). The information presented does not include operating expenses or capital expenditures that will be committed in the normal course of operations in 2020 and future years:

(in thousands)	Total	Payments Due by Period					
		2020	2021	2022	2023	2024	Thereafter
Operating lease obligations	\$ 3,267	\$ 615	\$ 624	\$ 624	\$ 624	\$ 624	\$ 156
Purchase obligations	3,834	3,139	393	160	142	—	—
Deferred compensation obligations	30,342	2,919	3,418	2,808	3,338	3,524	14,335
Total	\$ 37,443	\$ 6,673	\$ 4,435	\$ 3,592	\$ 4,104	\$ 4,148	\$ 14,491

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, 2019, 2018, and 2017, respectively.

(in thousands, except percentages and per share data)	Year Ended December 31,		
	2019	2018	2017
Total revenue	\$ 136,624	\$ 145,628	\$ 145,202
Net operating income, GAAP basis	\$ 47,935	\$ 71,256	\$ 67,001
Non-GAAP adjustments:			
Gains (losses) on deferred compensation plan investments, net ⁽¹⁾	5,977	(2,122)	2,382
Net operating income, as adjusted, non-GAAP basis ⁽²⁾	53,912	69,134	69,383
Non-GAAP adjustments:			
Tax provision on net operating income, as adjusted, non-GAAP basis ⁽³⁾	(13,680)	(19,542)	(25,704)
Net operating income, as adjusted, after tax, non-GAAP basis ⁽⁴⁾	\$ 40,232	\$ 49,592	\$ 43,679
Net operating income, as adjusted after tax per diluted share, non-GAAP basis ⁽⁵⁾	\$ 11.71	\$ 14.11	\$ 12.65
Diluted weighted average shares outstanding, GAAP basis	3,437	3,515	3,452
Operating profit margin, GAAP basis	35%	49%	46%
Operating profit margin, as adjusted, non-GAAP basis ⁽⁶⁾	39%	47%	48%

⁽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 represents 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.

⁽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 is calculated by applying the unconsolidated effective tax rate to net operating income, as adjusted.

⁽⁴⁾ *Net operating income, as adjusted, after tax:* This non-GAAP measure deducts from the net operating income, as adjusted, 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, contingent or otherwise, under a contract that would be accounted for as a derivative instrument or arising out of a variable interest.

Critical Accounting Policies and Estimates

Consolidation. We consolidate all subsidiaries and certain investments in which we have a controlling interest. We are generally deemed to have a controlling interest when we own the majority of the voting interest of a voting rights entity (“VRE”) or are deemed to be the primary beneficiary of a variable interest entity (“VIE”). A VIE is an entity that lacks sufficient equity to finance its activities or its equity holders do not have defined power to direct the activities of the entity normally associated with an equity investment. Our analysis to determine whether an entity is a VIE or a VRE involves judgment and considers several factors, including an entity’s legal organization, equity structure, the rights of the investment holders, our ownership interest in the entity, and our contractual involvement with the entity. We continually review and reconsider our VIE or VRE conclusions upon the occurrence of certain events, such as changes to our ownership interest, or amendments to contract documents.

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 rate 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 appropriate 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, 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, 2019, and shows the effects of a hypothetical 10% increase and decrease in investments.

	Fair Value as of December 31, 2019	Fair Value Assuming a Hypothetical 10% Increase	Fair Value Assuming a Hypothetical 10% Decrease
Equity investments	\$ 75,175,391	\$ 82,692,930	\$ 67,657,852
Fixed Income investments	64,261,787	70,687,966	57,835,608
Total	\$ 139,437,178	\$ 153,380,896	\$ 125,493,460

ITEM 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Diamond Hill Investment Group, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Diamond Hill Investment Group, Inc. and subsidiaries (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of income, shareholders’ equity and redeemable noncontrolling interest, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, 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) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2020 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company’s auditor since 2012.

Columbus, Ohio
February 27, 2020

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Diamond Hill Investment Group, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Diamond Hill Investment Group, Inc.'s and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, 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) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income, shareholders' equity and redeemable noncontrolling interest, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 27, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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, 2019 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ KPMG LLP

Columbus, Ohio
February 27, 2020

Diamond Hill Investment Group, Inc.
Consolidated Balance Sheets

	December 31,	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 93,176,253	\$ 84,430,059
Investments	139,437,178	203,488,217
Accounts receivable	17,223,362	20,290,283
Prepaid expenses	2,857,468	2,372,712
Income taxes receivable	3,849,099	—
Property and equipment, net of depreciation	5,733,737	3,680,472
Deferred taxes	10,386,853	11,466,100
Total assets	<u>\$ 272,663,950</u>	<u>\$ 325,727,843</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	\$ 8,671,731	\$ 15,561,491
Accrued incentive compensation	26,615,510	26,754,167
Income taxes payable	—	2,768,681
Deferred compensation	30,342,204	22,387,874
Total liabilities	<u>65,629,445</u>	<u>67,472,213</u>
Redeemable noncontrolling interest	<u>14,178,824</u>	<u>62,679,687</u>
Permanent Shareholders' Equity		
Common stock, no par value 7,000,000 shares authorized; 3,294,672 issued and outstanding at December 31, 2019 (inclusive of 227,844 unvested shares); 3,499,285 issued and outstanding at December 31, 2018 (inclusive of 211,575 unvested shares)	95,853,477	124,933,060
Preferred stock, undesignated, 1,000,000 shares authorized and unissued	—	—
Deferred equity compensation	(20,331,890)	(22,008,054)
Retained Earnings	117,334,094	92,650,937
Total permanent shareholders' equity	<u>192,855,681</u>	<u>195,575,943</u>
Total liabilities and shareholders' equity	<u>\$ 272,663,950</u>	<u>\$ 325,727,843</u>
Book value per share	\$ 58.54	\$ 55.89

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,		
	2019	2018	2017
REVENUES:			
Investment advisory	\$ 128,009,409	\$ 135,317,805	\$ 132,688,462
Mutual fund administration, net	8,614,971	10,309,943	12,513,267
Total revenue	<u>136,624,380</u>	<u>145,627,748</u>	<u>145,201,729</u>
OPERATING EXPENSES:			
Compensation and related costs, excluding deferred compensation expense	60,264,117	55,975,361	52,474,403
Deferred compensation expense (benefit)	5,976,938	(2,121,691)	2,381,569
General and administrative	13,277,843	11,648,925	14,036,681
Sales and marketing	5,867,297	5,242,848	4,994,525
Mutual fund administration	3,302,767	3,625,898	4,313,185
Total operating expenses	<u>88,688,962</u>	<u>74,371,341</u>	<u>78,200,363</u>
NET OPERATING INCOME	<u>47,935,418</u>	<u>71,256,407</u>	<u>67,001,366</u>
Investment income (loss), net	<u>30,507,375</u>	<u>(6,272,678)</u>	<u>14,017,593</u>
INCOME BEFORE TAXES	<u>78,442,793</u>	<u>64,983,729</u>	<u>81,018,959</u>
Income tax expense	<u>(18,688,474)</u>	<u>(18,669,341)</u>	<u>(29,417,290)</u>
NET INCOME	<u>59,754,319</u>	<u>46,314,388</u>	<u>51,601,669</u>
Net (income) loss attributable to redeemable noncontrolling interest	<u>(4,795,295)</u>	<u>1,061,441</u>	<u>(1,612,712)</u>
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ 54,959,024</u>	<u>\$ 47,375,829</u>	<u>\$ 49,988,957</u>
Earnings per share attributable to common shareholders			
Basic	<u>\$ 15.99</u>	<u>\$ 13.49</u>	<u>\$ 14.49</u>
Diluted	<u>\$ 15.99</u>	<u>\$ 13.48</u>	<u>\$ 14.48</u>
Weighted average shares outstanding			
Basic	<u>3,436,574</u>	<u>3,512,470</u>	<u>3,448,824</u>
Diluted	<u>3,436,641</u>	<u>3,514,528</u>	<u>3,451,838</u>

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

Diamond Hill Investment Group, Inc.
Consolidated Statements of Shareholders' Equity and Redeemable Noncontrolling Interest

	Shares Outstanding	Common Stock	Deferred Equity Compensation	Retained Earnings	Total	Redeemable Noncontrolling Interest
Balance at January 1, 2017	3,411,556	\$ 109,293,803	\$ (17,728,106)	\$ 47,658,458	\$ 139,224,155	\$ 13,840,688
Issuance of restricted stock grants	57,350	8,454,411	(8,454,411)	—	—	—
Amortization of restricted stock grants	—	—	6,871,284	—	6,871,284	—
Issuance of stock grants	19,219	3,892,424	—	—	3,892,424	—
Issuance of common stock related to 401k plan match	8,478	1,710,785	—	—	1,710,785	—
Shares withheld related to employee tax withholding	(24,425)	(4,966,042)	—	—	(4,966,042)	—
Forfeiture of restricted stock grants	(1,750)	(176,270)	176,270	—	—	—
Cash dividend paid of \$7.00 per share	—	—	—	(24,277,743)	(24,277,743)	—
Net income	—	—	—	49,988,957	49,988,957	1,612,712
Net subscriptions of consolidated funds	—	—	—	—	—	4,623,406
Balance at December 31, 2017	<u>3,470,428</u>	<u>\$ 118,209,111</u>	<u>\$ (19,134,963)</u>	<u>\$ 73,369,672</u>	<u>\$ 172,443,820</u>	<u>\$ 20,076,806</u>
Issuance of restricted stock grants	73,025	13,654,592	(13,654,592)	—	—	—
Amortization of restricted stock grants	—	—	6,664,875	—	6,664,875	—
Issuance of stock grants	20,153	4,109,197	—	—	4,109,197	—
Issuance of common stock related to 401k plan match	11,967	2,231,735	—	—	2,231,735	—
Shares withheld related to employee tax withholding	(9,918)	(1,925,700)	—	—	(1,925,700)	—
Forfeiture of restricted stock grants	(20,900)	(4,116,626)	4,116,626	—	—	—
Repurchases of common stock	(45,470)	(7,229,249)	—	—	(7,229,249)	—
Cash dividend paid of \$8.00 per share	—	—	—	(28,094,564)	(28,094,564)	—
Net income	—	—	—	47,375,829	47,375,829	(1,061,441)
Net subscriptions of consolidated funds	—	—	—	—	—	27,219,682
New consolidations of Company sponsored investments	—	—	—	—	—	16,444,640
Balance at December 31, 2018	<u>3,499,285</u>	<u>\$ 124,933,060</u>	<u>\$ (22,008,054)</u>	<u>\$ 92,650,937</u>	<u>\$ 195,575,943</u>	<u>\$ 62,679,687</u>
Issuance of restricted stock grants	53,969	7,471,799	(7,471,799)	—	—	—
Amortization of restricted stock grants	—	—	6,584,485	—	6,584,485	—
Issuance of stock grants	24,048	3,655,296	—	—	3,655,296	—
Issuance of common stock related to 401k plan match	17,651	2,496,936	—	—	2,496,936	—
Shares withheld related to employee tax withholding	(9,928)	(1,390,482)	—	—	(1,390,482)	—
Forfeiture of restricted stock grants	(14,200)	(2,563,478)	2,563,478	—	—	—
Repurchases of common stock	(276,153)	(38,749,654)	—	—	(38,749,654)	—
Cash dividend paid of \$9.00 per share	—	—	—	(30,275,867)	(30,275,867)	—
Net income	—	—	—	54,959,024	54,959,024	4,795,295
Net subscriptions of consolidated funds	—	—	—	—	—	8,095,940
Net deconsolidations of Company sponsored investments	—	—	—	—	—	(61,392,098)
Balance at December 31, 2019	<u>3,294,672</u>	<u>\$ 95,853,477</u>	<u>\$ (20,331,890)</u>	<u>\$ 117,334,094</u>	<u>\$ 192,855,681</u>	<u>\$ 14,178,824</u>

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,		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 59,754,319	\$ 46,314,388	\$ 51,601,669
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,164,207	1,159,380	888,197
Share-based compensation	9,081,421	8,896,610	8,582,069
Increase in accounts receivable	(5,021,516)	(1,014,839)	(1,615,070)
Change in current income taxes	(6,617,780)	6,883,643	(3,003,072)
Change in deferred income taxes	1,079,247	(5,622,396)	2,893,063
Net (gain) loss on investments	(21,058,463)	14,297,382	(9,730,751)
Net change in securities held by Consolidated Funds	6,286,645	(52,168,968)	(5,511,669)
Increase in accrued incentive compensation	3,516,639	5,366,864	6,705,424
Increase in deferred compensation	7,954,330	1,907,084	6,298,320
Other changes in assets and liabilities	827,194	2,111,443	3,811,579
Net cash provided by operating activities	<u>56,966,243</u>	<u>28,130,591</u>	<u>60,919,759</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(707,790)	(781,951)	(1,106,520)
Purchase of Company sponsored investments	(14,351,062)	(6,332,090)	(21,044,429)
Proceeds from sale of Company sponsored investments	48,637,779	2,853,144	3,597,130
Net cash on deconsolidation of Company sponsored investments	<u>(22,723,853)</u>	<u>—</u>	<u>—</u>
Net cash provided by (used in) investing activities	<u>10,855,074</u>	<u>(4,260,897)</u>	<u>(18,553,819)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Value of shares withheld related to employee tax withholding	(1,390,482)	(1,925,700)	(4,966,042)
Payment of dividends	(30,275,867)	(28,094,564)	(24,277,743)
Net subscriptions received from redeemable noncontrolling interest holders	11,340,880	21,207,770	6,290,077
Repurchase of common stock	<u>(38,749,654)</u>	<u>(7,229,249)</u>	<u>—</u>
Net cash used in financing activities	<u>(59,075,123)</u>	<u>(16,041,743)</u>	<u>(22,953,708)</u>
CASH AND CASH EQUIVALENTS			
Net change during the year	8,746,194	7,827,951	19,412,232
At beginning of year	84,430,059	76,602,108	57,189,876
At end of year	<u>\$ 93,176,253</u>	<u>\$ 84,430,059</u>	<u>\$ 76,602,108</u>
Supplemental cash flow information:			
Income taxes paid	\$ 24,227,006	\$ 17,408,094	\$ 29,527,299
Supplemental disclosure of non-cash transactions:			
Common stock issued as incentive compensation	3,655,296	4,109,197	3,892,424
Charitable donation of corporate investments and property and equipment	—	1,989,803	1,748,841
Net (redemptions) subscriptions of ETF Shares for marketable securities	(3,244,940)	6,282,621	(1,555,305)

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

Diamond Hill Investment Group, Inc.
Notes to Consolidated Financial Statements

Note 1 Business and Organization

Diamond Hill Investment Group, Inc. (the "Company"), an Ohio corporation, derives its consolidated revenues and net income from investment advisory and fund administration services.

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, sub-advised mutual funds, and separately managed accounts. In addition, DHCM is administrator for the Funds.

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, 2019 and 2018, and results of operations for the years ended December 31, 2019, 2018 and 2017. 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.

Reclassification

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

Book Value Per Share

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.

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 previously held an investment in the ETF, for general corporate investment purposes, to provide seed capital for newly formed strategies or to add capital to existing strategies. The Funds are organized in a series fund structure in which there are multiple mutual funds within one Trust. The Trust is an open-end investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The ETF was an individual series of ETF Series Solutions, which was also an open-end investment company registered under the 1940 Act. The ETF liquidated and its assets were distributed to its shareholders on April 5, 2019. Each of the individual mutual funds represents (and the ETF represented) a separate share class of a legal entity organized under the Trust.

The Company performs its consolidation analysis at the individual mutual fund and ETF level and has concluded the mutual funds are, and the ETF was, voting rights entities ("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%. The Company has consolidated the Diamond Hill International Fund and the Diamond Hill Global Fund (collectively the "Consolidated Funds") as of

December 31, 2019. The Company deconsolidated the ETF, the Diamond Hill Core Bond Fund and the Diamond Hill High Yield Fund during the year ended December 31, 2019 as the Company's ownership declined to less than 50%.

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 recorded 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, sub-advised mutual funds, and separately managed accounts. Therefore, no disclosures relating to operating segments are presented in the annual financial statements.

Cash and Cash Equivalents

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

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 the individuals or entities that owe the receivable. No allowance for doubtful accounts was deemed necessary at December 31, 2019 or 2018. Accounts receivable from the Funds were \$10.7 million and \$9.4 million as of December 31, 2019 and 2018, 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 in the Funds we advise where the Company has neither control nor the ability to exercise significant influence, as well as securities held in the Consolidated Funds, 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 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 in the Company's consolidated statements of income.

Property and Equipment

Property and equipment, consisting of leasehold improvements, computer equipment, furniture, and fixtures, are carried at cost less accumulated depreciation. Accumulated depreciation was \$6.4 million and \$5.2 million as of December 31, 2019 and 2018, respectively. Depreciation is calculated using the straight-line method over the estimated lives of the assets.

Revenue Recognition – General

Revenue is recognized when performance obligations under the terms of a contract with a client are satisfied. The Company earns substantially all of its revenue from investment advisory and fund administration contracts. 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 rate fees.

Revenue earned for the years ended December 31, 2019, 2018 and 2017 under contracts with clients include:

	Year Ended December 31, 2019		
	Investment advisory	Mutual fund administration, net	Total revenue
Proprietary funds	\$ 97,327,310	\$ 8,614,971	\$ 105,942,281
Sub-advised funds and separately managed accounts	30,682,099	—	30,682,099
	<u>\$ 128,009,409</u>	<u>\$ 8,614,971</u>	<u>\$ 136,624,380</u>
	Year Ended December 31, 2018		
	Investment advisory	Mutual fund administration, net	Total revenue
Proprietary funds	\$ 105,228,977	\$ 10,309,943	\$ 115,538,920
Sub-advised funds and separately managed accounts	30,088,828	—	30,088,828
	<u>\$ 135,317,805</u>	<u>\$ 10,309,943</u>	<u>\$ 145,627,748</u>
	Year Ended December 31, 2017		
	Investment advisory	Mutual fund administration, net	Total revenue
Proprietary funds	\$ 104,233,581	\$ 12,513,267	\$ 116,746,848
Sub-advised funds and separately managed accounts	28,454,881	—	28,454,881
	<u>\$ 132,688,462</u>	<u>\$ 12,513,267</u>	<u>\$ 145,201,729</u>

Revenue Recognition – Investment Advisory Fees

The Company's investment advisory contracts have a single performance obligation (the investment advisory services provided to the client) as the promised services are not separately identifiable from other promises in the contracts and, therefore, are not distinct. All performance obligations to provide advisory services are satisfied over time and the Company recognizes revenue as time passes.

The fees we receive for our services under our investment advisory contracts are based on our AUM, which changes based on the value of securities held under each advisory contract. These fees are thereby constrained and represent variable consideration, and are excluded from revenue until the AUM on which our client is billed is no longer subject to market fluctuations.

The Company also provides services to UMA programs in which an investment manager provides its strategy model portfolio to the sponsor of the UMA program. The Company is paid a portion of the UMA fee for its services by the program sponsor at a pre-determined rate based on assets in the program. UMA program revenues were \$2.0 million, \$1.5 million and \$1.2 million as of December 31, 2019, 2018 and 2017, respectively and are included in investment advisory fees in the consolidated statements of income.

Revenue Recognition – Variable Rate Fees

The Company manages certain client accounts that provide for variable rate fees. These fees are calculated based on client investment results over rolling five-year periods. The Company records variable rate fees at the end of the contract measurement period because the variable fees earned are constrained based on movements in the financial markets. During the years ended December 31, 2019, 2018, and 2017, the Company recorded \$1.3 million, \$1.4 million, and \$0.2 million, respectively, in variable rate fees. The table below shows AUM subject to variable rate fees and the amount of variable rate fees that would be recognized based upon investment results as of December 31, 2019:

	As of December 31, 2019	
	AUM subject to variable rate fees	Unearned variable rate fees
Contractual Period Ending:		
Quarter Ending March 31, 2020	\$ 14,805,313	\$ —
Quarter Ending September 30, 2021	308,024,014	6,932,423
Total	<u>\$ 322,829,327</u>	<u>\$ 6,932,423</u>

The contractual end dates highlight the time remaining until the variable rate fees are scheduled to be earned. The amount of variable rate fees that would be recognized based upon investments results as of December 31, 2019, 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 performance obligations, such as mutual fund administration, fund accounting, transfer agency, and other related functions. These services are performed concurrently under our agreement with the Funds, and all performance obligations to provide these administrative services are satisfied over time, and the Company recognizes revenue as time passes. 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. These fees are thereby constrained and represent variable consideration, and are excluded from revenue until the AUM on which we bill the Funds is no longer subject to market fluctuations.

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 addition, DHCM advances the upfront commissions that 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.

Mutual fund administration gross and net revenue are summarized below:

	Year Ended December 31,		
	2019	2018	2017
Mutual fund administration:			
Administration revenue, gross	\$ 22,569,946	\$ 24,463,538	\$ 26,219,881
Fund related expense	(13,989,139)	(14,183,370)	(13,748,445)
Revenue, net of related expenses	8,580,807	10,280,168	12,471,436
DHCM C-Share financing:			
Broker commission advance repayments	240,459	332,680	416,614
Broker commission amortization	(206,295)	(302,905)	(374,783)
Financing activity, net	34,164	29,775	41,831
Mutual fund administration revenue, net	\$ 8,614,971	\$ 10,309,943	\$ 12,513,267

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 among those jurisdictions, and 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*. The Company records interest and penalties within income tax expense on the income statement. See Note 9.

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 units. See Note 10.

Newly Issued But Not Yet Adopted Accounting Guidance

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurements." This update makes certain revisions to existing disclosure requirements for fair value measurement. ASU 2018-13 does not change fair value measurements already required or permitted by existing standards. ASU 2018-13 is effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Management does not believe that adoption of ASU 2018-13 will materially impact the Company's financial statements.

Note 3 Investments

The following table summarizes the carrying value of investments as of December 31, 2019 and 2018:

	As of December 31,	
	2019	2018
Fair value investments:		
Securities held in Consolidated Funds ^(a)	\$ 36,248,360	\$ 153,730,480
Company sponsored investments	42,039,044	33,418,088
Company sponsored equity method investments	61,149,774	16,339,649
Total Investments	\$ 139,437,178	\$ 203,488,217

(a) Of the securities held in the Consolidated Funds as of December 31, 2019, \$21.1 million were held directly by the Company and \$15.1 million were held by noncontrolling shareholders. Of the securities held in the Consolidated Funds as of December 31, 2018, \$84.7 million were held directly by the Company and \$69.0 million were held by noncontrolling shareholders.

As of December 31, 2019, our securities held in Consolidated Funds consisted of the Diamond Hill Global Fund and the Diamond Hill International Fund as our ownership percentage in these investments was greater than 50%.

During the year ended December 31, 2019, the Company began consolidating the Diamond Hill International Fund as ownership increased above 50% and deconsolidated the ETF, the Diamond Hill Core Bond Fund and the Diamond Hill High Yield Fund as our ownership in each declined to less than 50%.

As of December 31, 2018, our securities held in Consolidated Funds consisted of the ETF, the Diamond Hill Core Bond Fund, the Diamond Hill Global Fund, and the Diamond Hill High Yield Fund as our ownership percentage in these investments was greater than 50%. During the year ended December 31, 2018, the Company consolidated the Diamond Hill Global Fund and the Diamond Hill High Yield Fund as our ownership interest in each increased to above 50%.

The components of net investment income (loss) are as follows:

	For the Year Ended December 31,		
	2019	2018	2017
Realized gains	\$ 9,056,152	\$ 2,143,695	\$ 2,497,707
Unrealized gains (losses)	15,086,747	(16,067,048)	8,077,335
Dividends	5,350,146	2,814,026	2,248,185
Interest	987,240	4,857,261	1,195,995
Other investment income (loss)	27,090	(20,612)	(1,629)
Investment income (loss), net	\$ 30,507,375	\$ (6,272,678)	\$ 14,017,593

Company Sponsored Equity Method Investments

As of December 31, 2019, our equity method investments consisted of the Diamond Hill Research Opportunities Fund and the Diamond Hill Core Bond Fund, and our ownership percentage in each of these investments was 23% and 36%, respectively. During the first half of 2019 there were periods of time where our ownership in the Diamond Hill High Yield Fund was between 20% and 50%, and thus, a portion of its income is included in the table below for the year ended December 31, 2019. During the first half of 2019 there were periods of time where our ownership in the Diamond Hill Core Bond Fund was greater than 50%, and thus, a portion of its income is excluded from the table below for the year ended December 31, 2019.

As of December 31, 2018, our equity method investment consisted of the Diamond Hill Research Opportunities Fund, and our ownership percentage in this investment was 28% and its income is included in the table below for the year ended December 31, 2018. For the year ended December 31, 2017, our equity method investments consisted of the Diamond Hill Research Opportunities Fund and the Diamond Hill High Yield Fund, as our ownership percentage in each of these investments were 26% and 48%, respectively, thus their income is included in the table below.

The Company's equity method investments consist of cash, marketable equity securities and fixed income securities. The following table includes the condensed summary financial information from the Company's equity method investments as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017:

	As of December 31,		
	2019	2018	
Total assets	\$ 237,073,628	\$ 80,845,124	
Total liabilities	38,453,935	22,287,437	
Net assets	198,619,693	58,557,687	
DHCM's portion of net assets	61,149,774	16,339,649	
	For the Year Ended December 31,		
	2019	2018	2017
Investment income	\$ 5,346,588	\$ 1,154,007	\$ 2,944,836
Expenses	1,551,291	978,322	1,176,896
Net realized gains	6,390,727	1,918,661	4,432,850
Net change in unrealized appreciation (depreciation)	14,805,837	(10,229,319)	5,613,627
Net income (loss)	24,991,861	(8,134,973)	11,814,417
DHCM's portion of net income (loss)	8,301,571	(2,400,467)	3,206,702

Note 4 Fair Value Measurements

The Company determines the fair value of our cash equivalents and certain investments using the following 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. We do not value any investments using Level 3 inputs.

These levels are not necessarily an indication of the risk or liquidity associated with investments.

The following table summarizes investments that are recognized in our consolidated balance sheet using fair value measurements (excludes investments classified as equity method investments) determined based upon the differing levels as of December 31, 2019 and 2018:

December 31, 2019	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 90,144,943	\$ —	\$ —	\$ 90,144,943
Fair value investments				
Securities held in Consolidated Funds ^(a)	19,238,197	17,010,163	—	\$ 36,248,360
Company sponsored investments	42,039,044	—	—	\$ 42,039,044
December 31, 2018				
Cash equivalents	80,690,647	—	—	\$ 80,690,647
Fair value investments				
Securities held in Consolidated Funds ^(a)	43,595,438	110,135,042	—	\$ 153,730,480
Company sponsored investments	33,418,088	—	—	\$ 33,418,088

(a) Of the securities held in the Consolidated Funds as of December 31, 2019, \$21.1 million were held directly by the Company and \$15.1 million were held by noncontrolling shareholders. Of the securities held in the Consolidated Funds as of December 31, 2018, \$84.7 million were held directly by the Company and \$69.0 million were held by noncontrolling shareholders.

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 any of the years ended December 31, 2019, 2018, and 2017.

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

Note 5 Line of Credit

The Company has a committed Line of Credit Agreement (the "Credit Agreement") with a commercial bank that matures on December 25, 2020 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 1.00%. The Company pays a commitment fee on the unused portion of the facility, accruing at a rate per annum of 0.10%.

The Company has not borrowed under the Credit Agreement as of and for the period ended December 31, 2019.

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

Note 6 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 shares 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 preferred shares issued or outstanding at December 31, 2019 or 2018.

Note 7 Compensation Plans

Equity Incentive Plan

The Company's equity and incentive plan (the "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 Plan authorizes the issuance of 600,000 common shares of the Company in various forms of equity awards. The Plan also authorizes cash incentive awards. As of December 31, 2019, there were 233,582 common shares available for awards under the Plan. The Plan provides that the Board of Directors, or a committee appointed by the Board, may grant awards and otherwise administer the Plan. Restricted stock units and restricted stock grants issued under the 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 Plan are recorded as compensation expense based on the grant date price.

Share-Based Payment Transactions

The Company issues restricted stock units and restricted stock awards (sometimes referred to collectively as, "Restricted Stock") under the Plan. Restricted stock units represent common shares which may be issued in the future, whereas restricted stock awards represent common shares issued and outstanding upon grant subject to vesting restrictions. The following table represents a roll-forward of outstanding Restricted Stock and related activity during the years ended December 31, 2019 and 2018:

	Shares	Weighted-Average Grant Date Price per Share
Outstanding Restricted Stock as of December 31, 2018	214,575	\$ 177.22
Grants issued	50,969	146.59
Grants vested	(23,500)	125.60
Grants forfeited	(14,200)	180.53
Outstanding Restricted Stock as of December 31, 2019	<u>227,844</u>	<u>\$ 175.49</u>

The weighted-average grant date price per share of Restricted Stock issued during the years ended December 31, 2018 and 2017 was \$195.00 and \$204.46, respectively. The total fair value of Restricted Stock vested, as of their respective vesting dates, during the years ended December 31, 2019, 2018 and 2017 was \$3.3 million, \$5.8 million and \$13.3 million, respectively.

Total deferred equity compensation related to unvested Restricted Stock grants was \$20.3 million as of December 31, 2019. Compensation expense related to Restricted Stock grants is calculated based upon the fair market value of the common shares on the grant date. The Company's policy is to adjust compensation expense for forfeitures as they occur. The recognition of compensation expense related to deferred compensation over the remaining vesting periods is as follows:

2020	2021	2022	2023	2024	Thereafter	Total
\$ 6,505,660	\$ 5,229,101	\$ 4,246,953	\$ 2,181,995	\$ 1,049,747	\$ 1,118,434	\$ 20,331,890

Stock Grant Transactions

The following table represents shares issued as part of our incentive compensation program during the years ended December 31, 2019, 2018, and 2017:

	Shares Issued	Grant Date Value
December 31, 2019	24,048	\$ 3,655,296
December 31, 2018	20,153	4,109,197
December 31, 2017	19,219	3,892,424

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. Effective April 1, 2018, the Company increased its matching contributions of common shares of the Company with a value equal to 250 percent of the first six percent of an employee's compensation contributed to the plan. Prior to April 1, 2018, the Company made 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 contribution 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, 2019, 2018 and 2017:

	Shares Issued	Company Contribution
December 31, 2019	17,651	\$ 2,496,936
December 31, 2018	11,967	2,231,735
December 31, 2017	8,478	1,710,785

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"). Under the Plans, participants may elect to voluntarily defer, for a minimum of five years, certain incentive compensation, which the Company then contributes into the Plans. Each participant is responsible for designating investment options for assets they contribute, and the distribution paid to each participant reflects any gains or losses on the assets realized while in the Plans. Assets held in the Plans are included in the Company's investment portfolio, and the associated obligation to participants is included in deferred compensation liability. The gain (loss) on deferred compensation plan investments is recorded as deferred compensation expense (benefit), and is included in operating income. Deferred compensation expense is offset by an equal amount in investment income below net operating income on the consolidated statements of income statement, and thus has no impact on net income attributable to the Company. Deferred compensation liability was \$30.3 million and \$22.4 million as of December 31, 2019 and 2018, respectively.

Note 8 Operating Leases

The Company currently leases office space of approximately 37,829 square feet at one location.

In February 2016, the FASB issued ASU 2016-02, "Leases", which, among other things, requires lessees to recognize most leases on-balance sheet. The Company adopted this ASU on its effective date, January 1, 2019, using a modified retrospective approach without restating prior comparative periods. Upon implementation, the Company recorded a right-of use asset of approximately \$2.9 million, which includes the lease liability amount less deferred rent liabilities and lease incentives received, and a lease liability of approximately \$3.6 million related to our office lease. As of December 31, 2019, the carrying value of the right-of use asset, which is included in property and equipment, net of depreciation on the consolidated balance sheets, was approximately \$2.5 million. As of December 31, 2019, the carrying value of the lease liability which is included in accounts payable and accrued expenses on the consolidated balance sheets, was approximately \$3.1 million. The adoption of this ASU had no impact on our consolidated statements of income and cash flows and there was no cumulative-effect adjustment required to opening retained earnings.

The following table summarizes the total lease and the related operating expenses for the years ended December 31, 2019, 2018 and 2017:

For the year ended December 31,		
2019	2018	2017
\$ 971,203	\$ 970,143	\$ 936,008

Lease and the related operating expenses are recorded in general and administrative expenses on the consolidated statements of income.

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

Total	Future Minimum Lease Payments by Year					
	2020	2021	2022	2023	2024	Thereafter
\$ 3,267,481	\$ 614,721	\$ 624,179	\$ 624,179	\$ 624,179	\$ 624,179	\$ 156,044

In addition to the above lease payments, the Company is also responsible for normal operating expenses of the property. These annual operating expenses were approximately \$0.4 million in each of 2019, 2018 and 2017.

Note 9 Income Taxes

The provision for income taxes consists of:

	As of December 31,		
	2019	2018	2017
Current federal income tax provision	\$ 13,952,230	\$ 15,731,258	\$ 24,749,832
Current state and local income tax provision	3,656,997	8,560,479	1,774,395
Deferred income tax expense (benefit)	1,079,247	(5,622,396)	2,893,063
Provision for income taxes	<u>\$ 18,688,474</u>	<u>\$ 18,669,341</u>	<u>\$ 29,417,290</u>

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

	2019	2018	2017
Income tax computed at statutory rate	\$ 16,472,987	\$ 13,646,583	\$ 28,356,636
Expense (benefit) attributable to redeemable noncontrolling interests ^(a)	(1,007,012)	222,624	(564,449)
State and local income taxes, net of federal benefit	2,835,215	2,993,730	1,153,357
Change in uncertain state and local tax positions, net of federal benefit	(47,197)	2,982,337	—
Revaluation adjustment of net deferred tax assets ^(b)	—	(917,288)	3,557,039
Excess tax benefits on vesting of Restricted Stock	(70,878)	(667,697)	(2,420,250)
Income tax benefit from dividends paid on Restricted Stock	(431,192)	(340,200)	(418,583)
Interest and Penalties	101,010	786,711	—
Other	835,541	(37,459)	(246,460)
Income tax expense	<u>\$ 18,688,474</u>	<u>\$ 18,669,341</u>	<u>\$ 29,417,290</u>

(a) The provision for income taxes includes expense (benefit) attributable to the fact that the Company's operations include the Consolidated Funds which are not subject to federal income taxes. Accordingly, a portion of the Company's earnings are not subject to corporate tax levels.

(b) The provision for income taxes for 2018 includes the remeasurement of our net deferred tax assets of \$(0.9) million due to the additional state and local tax we expect to pay in future tax periods. The provision for income taxes for 2017 includes a non-recurring charge of \$3.6 million for the remeasurement of our net deferred tax assets to reflect the effect of the U.S. tax law changes enacted on December 22, 2017.

Deferred income taxes and benefits arise from temporary differences between taxable income for financial statement and income tax return purposes. Net deferred tax assets consisted of the following at December 31, 2019 and 2018:

	2019	2018
Stock-based compensation	\$ 4,571,430	\$ 4,025,255
Accrued compensation	8,496,929	6,684,531
Unrealized losses (gains)	(2,150,699)	1,323,181
Property and equipment	(553,265)	(498,271)
Other assets and liabilities	22,458	(68,596)
Net deferred tax assets	<u>\$ 10,386,853</u>	<u>\$ 11,466,100</u>

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, 2019, no valuation allowance was deemed necessary.

FASB ASC 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company recognizes tax benefits related to positions taken, or expected to be taken, on its tax returns, only if the positions are "more-likely-than-not" sustainable. Once this threshold has been met, the Company's measurement of its expected tax benefits is recognized in its financial statements.

The Company and its subsidiaries file income tax returns with the Internal Revenue Service and the taxing authorities of various states. Generally the Company is subject to federal, state and local examinations by tax authorities for the tax years ended December 31, 2015 through 2019. During 2019 the Company closed an examination with the New York State Department of Finance and Taxation for tax years 2014 through 2016. During 2018, the Company reassessed its New York City filing positions and filed a Voluntary Disclosure Agreement with the New York City Department of Finance. The Company is currently under examination by the California Franchise Tax Board for the Company's 2015 and 2016 tax years and the audit is ongoing.

The outcome of the current tax examination is not expected to have a material impact on the Company's financial statements. The Company believes that some of these audits and negotiations will conclude within the next 12 months and that it is reasonably possible the amount of uncertain tax positions, including interest, may change by an immaterial amount due to settlements of audits.

The amount of uncertain tax positions as of December 31, 2019, 2018 and 2017, respectively, which would impact the Company's effective tax rate if recognized and a reconciliation of the beginning and ending amounts of uncertain tax positions is as follows:

	2019	2018	2017
Uncertain tax positions, beginning of the year	\$ 2,982,337	\$ —	\$ —
Gross addition for tax positions of the current year	—	—	—
Gross additions for tax positions of prior years	—	2,982,337	—
Reductions of tax positions of prior years for:			
Lapses of applicable statutes of limitations	—	—	—
Settlements during the period	(2,935,140)	—	—
Changes in judgment/excess reserve	(47,197)	—	—
Uncertain tax positions, end of year	<u>\$ —</u>	<u>\$ 2,982,337</u>	<u>\$ —</u>

In addition to the above uncertain tax positions, the Company recognized \$0.1 million and \$0.8 million of interest and penalties in the years ended December 31, 2019 and 2018, respectively. No interest and penalties were accrued for uncertain tax positions during the year ended December 31, 2017.

Note 10 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. 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,		
	2019	2018	2017
Net Income	\$ 59,754,319	\$ 46,314,388	\$ 51,601,669
Less: Net loss (income) attributable to redeemable noncontrolling interest	(4,795,295)	1,061,441	(1,612,712)
Net income attributable to common shareholders	\$ 54,959,024	\$ 47,375,829	\$ 49,988,957
Weighted average number of outstanding shares	3,436,574	3,512,470	3,448,824
Dilutive impact of restricted stock units	67	2,058	3,014
Weighted average number of outstanding shares - Diluted	3,436,641	3,514,528	3,451,838
Earnings per share attributable to common shareholders			
Basic	\$ 15.99	\$ 13.49	\$ 14.49
Diluted	\$ 15.99	\$ 13.48	\$ 14.48

Note 11 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.

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) as of the end of the period covered by this Annual Report on Form 10-K (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, 2019 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, 2019 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, 2019.

The Company’s independent registered public accounting firm, KPMG LLP, has audited the Company’s 2019 and 2018 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, 2019, 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 2020 annual meeting of shareholders, which will be filed with the SEC no later than 120 days after December 31, 2019, pursuant to Regulation 14A of the Exchange Act (the “2020 Proxy Statement”), under the captions: “Delinquent Section 16(a) Reports”, “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 2020 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 – Executive Officers and Compensation Information”, and “Proposal 1 – Election of Directors – Executive Officers and Compensation Information - 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, 2019:

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	—	\$ —	233,582 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 2020 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 2020 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 2020 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 Certificate of Amendment by Shareholders to the Articles of Incorporation of the Company (Incorporated by reference from Form 8-K Current Report for the event on April 28, 2017; File No. 000-24498.)
- 3.3 Amended and Restated Code of Regulations of the Company (Incorporated by reference from Form 8-K Current Report, Exhibit 3.2, filed with the SEC on April 28, 2017; File No. 000-24498.)
- 4.1 Description of the Company’s Capital Stock (Filed herewith)
- 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)(xi) to Form N-1A filed by Diamond Hill Funds as a 485BPOS on October 10, 2017; File Nos. 333-22075 and 811-08061)
- 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 Form N-1A filed by Diamond Hill Funds as a 485BPOS on October 10, 2017; File Nos. 333-22075 and 811-08061)
- 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* 2014 Equity and Cash Incentive Plan As of Agreement. (Incorporated by reference from Exhibit 10.4 to the Annual Report on Form 10-K filed with the SEC on February 21, 2019; File No. 000-24498.)
- 10.5* 2011 Equity and Cash Incentive Plan referenced therein. (Incorporated by reference from Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on April 29, 2011; File No. 000-24498.)
- 10.6* 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.)
- 10.7* 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.)
- 10.8* 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.)
- 10.9* 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.)
- 10.10* 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.)
- 10.11* 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.)
- 10.12 Employment Agreement between Heather E. Brilliant and Diamond Hill Capital Management, Inc., dated July 5, 2019 (Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on July 10, 2019; File No. 000-24498).
- 14.1 Amended Code of Business Conduct and Ethics. (Filed herewith)

- 21.1 Subsidiaries of the Company. (Filed herewith)
- 23.1 Consent of Independent Registered Public Accounting Firm, KPMG LLP. (Filed herewith)
- 31.1 Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a). (Filed herewith)
- 31.2 Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a). (Filed herewith)
- 32.1 Section 1350 Certifications. (Furnished herewith)
- 101.ins XBRL Instance Document.
- 101.sch XBRL Taxonomy Extension Schema Document.
- 101.cal XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.def XBRL Taxonomy Extension Definition Linkbase Document.
- 101.lab XBRL Taxonomy Extension Label Linkbase Document.
- 101.pre XBRL Taxonomy Extension Presentation Linkbase Document.

* Denotes management contract or compensatory plan or arrangement.

(b) Exhibits: Reference is made to Item 15(a)(3) above.

(c) Financial Statement Schedules: None required.

ITEM 16. Form 10-K Summary

None.

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/ Heather E. Brilliant

Heather E. Brilliant, Chief Executive Officer

February 27, 2020

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Heather E. Brilliant</u> Heather E. Brilliant	Chief Executive Officer and President	February 27, 2020
<u>/s/ Thomas E. Line</u> Thomas E. Line	Chief Financial Officer and Treasurer	February 27, 2020
<u>/s/ Jeffrey J. Cook</u> Jeffrey J. Cook	Controller	February 27, 2020
<u>Randolph J. Fortener*</u> Randolph J. Fortener	Director	February 27, 2020
<u>James F. Laird*</u> James F. Laird	Director	February 27, 2020
<u>Paula R. Meyer*</u> Paula R. Meyer	Director	February 27, 2020
<u>Paul A. Reeder, III*</u> Paul A. Reeder, III	Director	February 27, 2020
<u>Bradley C. Shoup*</u> Bradley C. Shoup	Director	February 27, 2020
<u>Nicole R. St. Pierre*</u> Nicole R. St. Pierre	Director	February 27, 2020

* 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

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

KPMG LLP
Columbus, OH

STOCK LISTING

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

FORM 10-K AND OTHER FINANCIAL REPORTS

The Company's Annual Report on Form 10-K, as filed with the U.S. Securities and Exchange Commission, which includes the complete financial statements of the company, has been included with the proxy materials mailed to each shareholder.

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

325 John H. McConnell Blvd., Suite 200
Columbus, OH 43215
614.255.3333
info@diamond-hill.com

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.
1 State Street, 30th Floor
New York, NY 10004
212.509.4000

LEGAL COUNSEL

Vorys, Sater, Seymour and Pease LLP
Columbus, OH

www.diamond-hill.com

