Diamond Hill Investment Group, Inc.

2020 Annual Report

Notice of 2021 Annual Meeting

And Proxy Statement

DIAMOND HILL INVESTMENT GROUP

DIAMOND HILL INVESTMENT GROUP, INC.
ANNUAL LETTER TO SHAREHOLDERS

March 12, 2021

Dear Fellow Shareholders:

At Diamond Hill, our primary purpose is to improve our clients' lives through better financial outcomes. That commitment is evident in our vision—to be an exceptional, active investment boutique that our clients trust to deliver excellent long-term investment outcomes from a team aligned with their success.

Our industry has faced significant headwinds over the past decade—in part because investors are rightly demanding greater value for fees paid. Superior investment results, while a critical part of our success, are no longer enough. Clients are demanding more transparency, greater accountability and more targeted communication—a client experience that addresses their specific needs from a long-term partner they can trust. We believe the best way to build that trust and deliver on our purpose and vision is through our aligned boutique model (explained below), by fostering an investment culture where clients come first, and by ensuring every associate is committed to upholding our values of curiosity, ownership, trust and respect.

An Aligned Boutique Model Fosters Our Client-Centric Culture

Client alignment has been intentionally and thoughtfully embedded into how we operate from the day we were founded and forms the cornerstone of our aligned boutique model. In addition to ensuring alignment with our clients, our model also clarifies the principles on which all our investment teams and employees are focused. We believe these principles are foundational to who we are and how we serve clients, lead to excellent long-term investment results across multiple capabilities and promote enduring client relationships.

- We believe we can add the most value with an **active, fundamentally driven process.**
- We emphasize an **ownership mindset**. Our investment professionals approach each investment as long-term owners. Further, our portfolio managers invest heavily alongside our clients. Every employee owns shares in our company from their first day and has the opportunity to build further ownership in our company and invest in our strategies along with our clients, promoting an ownership mentality throughout the firm.
- We are **long-term oriented**. We believe in the rigor of our research and the power of time-horizon arbitrage. As bottom-up, benchmark-agnostic investors, we expect to outperform over the long term. We are comfortable with shorter periods where our portfolios' performance may meaningfully differ from peers or our clients' benchmarks.
- We invest with a **valuation discipline**, which goes beyond investing according to common industry definitions of growth versus value. Instead, we believe in taking an ownership stake in an investment at a discount to what we believe it is worth and waiting patiently for value to be realized.
- We are committed to **capacity discipline.** We believe prudent capacity management puts our clients' interests first.

Our capacity discipline is a differentiating feature of our firm. Our focus on long-term performance rather than asset growth incentivizes our portfolio managers to prioritize existing clients and close strategies before they reach a size that could limit their ability to deliver value-added returns.

Our Shared Values

We believe we have the right business model and shared investment principles to add value for clients. As important is having a common sense of purpose and direction for all associates. Our culture allows us to attract and retain associates who share our commitment to client alignment, are motivated by investment excellence and are committed to delivering superior outcomes. In short, our culture emphasizes four key values: curiosity, ownership, trust and respect.

Associates who are **curious** focus on continuous self-improvement and have a passion for learning. They are open-minded, seek differing perspectives and go beyond surface-level assumptions. Associates who think and act like business **owners** naturally embrace a long-term mindset. They lead by example and accept accountability for ensuring excellent client outcomes. Associates who embrace **trust** act with integrity, are authentic and honest in interactions with others, and put client interests ahead of all others. Associates who are motivated by giving and receiving **respect** communicate and provide feedback candidly, transparently and with positive intent. They are humble in their assumptions and listen to better understand others. They embrace, value and celebrate diversity, inclusion and differences in all forms.

Taking Action on Diversity, Equity, and Inclusion (DEI)

Once we embrace a long-term, valuation-disciplined, client-centric mindset, our success as investors depends on a culture where associates can think differently and feel empowered to challenge conventional wisdom. We believe this creates an environment where intellectually curious professionals—those who are committed to the differentiated thinking necessary to deliver excellent client outcomes—want to come and stay. At the same time, we recognize that our firm and the asset management industry overall have work to do to ensure we create more diverse, equitable and inclusive workplaces. We are committed to providing our clients with better results that come from a diverse talent pool, promoting a more inclusive workplace for our associates and promoting positive change in our industry and community.

As part of our efforts, in June 2020, we explicitly pledged to be more proactive in advancing DEI. To ensure our pledge resulted in action, we organized our efforts under four pillars.

1. **Philanthropy and Community**. We pledged to invest $1 million over the next five years in organizations that support anti-racism and DEI efforts.
2. **Vendor Relationships and Policies**. We committed to conducting a full review of our vendor relationships with the aim of increasing diversity. We also committed to continually reviewing our policies and procedures to ensure we are supporting diversity and inclusion at our firm.
3. **Workforce Diversity.** We are working on providing internship and employment opportunities to historically underrepresented groups and ensuring a diverse talent pipeline is considered for every open role.
4. **Inclusive Culture.** We know an inclusive culture is imperative to support diversity in an organization. We aim to foster inclusion at Diamond Hill and communicate openly with associates on our DEI progress and efforts. We established a DEI Resource Group that aids in strategizing, planning and executing on our initiatives.

We are proud to have more than 30% of our workforce involved in our DEI efforts, with representation from all teams at the firm. We believe with commitment and focus, our efforts will yield material improvements for our clients, our associates, our shareholders and our community.

Enabling Great Investment Results and Client-Centric Growth

As we plan for meeting current and future client needs, we have undertaken several initiatives. We have begun taking steps to close our Large Cap strategy to most new investors, and we are fostering growth in existing capabilities that are hitting key milestones important to clients. We are also focused on the expansion of a more concentrated suite of strategies that meet client objectives, capitalize on our investment team's research capabilities, build on our success of managing high-conviction portfolios and align with our investment principles.

Managing capacity is core to who we are as a firm and the alignment we seek with clients. As such, we recently announced the closing of our Large Cap strategy to most new investors to ensure asset size does not become an impediment to performance. Capacity management is often viewed as a growth inhibitor in our industry. We view it as part of our promise to clients to always act in their best interests. Further, as an aligned boutique, our growth is not dependent on building excessive AUM in any one strategy, which is why we remain focused on fostering multiple capabilities that leverage our competitive strengths.

Among our existing strategies, we have several reaching five-year milestones in 2021 that have shown the ability to exceed client expectations since inception. These include Core Bond and Short Duration Securitized Bond under the management of portfolio managers Mark Jackson, CFA, and Henry Song, CFA. These portfolios distinguish themselves in the marketplace with a focus on securitized assets, which gives them a differentiated risk/return profile relative to peers. Our International strategy also turns five years old this year, at a time when investor interest in non-U.S. markets is increasing following a long period of U.S. outperformance. In addition to our U.S. equity strategies, we believe these three strategies have tremendous potential in asset classes where investors value active management.

As clients look to their active managers to generate meaningful alpha, they are increasingly demanding high conviction, more concentrated portfolios. Our shared investment principles have always led us to build portfolios that are more highly concentrated than most of our peers. We plan to leverage that expertise by focusing on expanding a suite of more highly concentrated, high-alpha strategies to deliver excellent outcomes and fulfill client needs. Our Large Cap Concentrated strategy is approaching its 10-year anniversary this year, and we plan to launch it as a new fund in our Diamond Hill Funds lineup. Our Large Cap Concentrated strategy typically has 20 holdings with market capitalizations of greater than $15 billion, differentiating it from our Large Cap portfolio, which can hold 40-60 positions with market capitalizations of $5 billion or greater. We have also been running a more highly concentrated portfolio in our All Cap Select strategy. Further, we are planning to offer a Micro Cap strategy that will leverage our experience evaluating companies down the market-cap spectrum.

Our aligned boutique model provides a focus on investment excellence while enabling growth when beneficial to clients. It also fosters an environment for our investment professionals that supports innovative thinking and new ideas. Finally, we believe this model will allow us to keep pace with an industry that is under constant evolution amid pressure to deliver demonstrable value to clients.

Management Update

To execute on our aligned boutique business model, it is critically important to have the right infrastructure and dedicated leadership in place to give our portfolio managers the freedom to focus on generating excellent results. Our management team, which is accountable for our vision, includes me as CEO, our Chief People Officer Anna Corona, General Counsel and Corporate Secretary Carlotta King, Chief Financial Officer Tom Line, Chief Client Officer Jo Ann Quinif and our dedicated Chief Investment Officer (CIO) Matthew Stadelman, CFA, who has absorbed responsibilities previously held by Austin Hawley. Together, we serve as Diamond Hill's primary decision-making body, responsible for overall business strategy and corporate capital allocation.

We created the Chief Client Officer role in 2020 to ensure we remain focused on delivering a great client experience overall. Jo Ann was a natural fit for the role given her leadership and responsibilities as our managing director of business development and marketing. We also created the Chief People Officer role to emphasize the importance of attracting, retaining and developing talented associates with a passion for client alignment while cultivating our core values. We were fortunate to identify Anna for this role, who came to us from Morningstar Australasia with broad experience in talent development, succession planning, coaching and benefits. We were also delighted to add Carlotta to the firm in 2020 as general counsel—she brings extensive financial industry and legal expertise to this vital role, where she will focus on the relationship between our corporate board of directors and the management team as part of her responsibilities.

The dedicated CIO role marks an important transition for Diamond Hill, giving Austin greater focus on portfolio management responsibilities. As someone who is steeped in Diamond Hill's investment philosophy, process, culture and values, Matthew was the ideal candidate for this role. He will act as an external voice of the investment team with clients, advocate for our investment team internally, and play a key role in hiring and feedback. He will closely collaborate with portfolio managers but will not have any portfolio decision-making responsibilities, allowing portfolio managers the continued freedom and autonomy to execute their philosophy. The trading team will also report to Matthew, enabling Chris Welch to further focus on portfolio management responsibilities. We are deeply appreciative of Austin and Chris for their dedication and leadership and are pleased to give them the freedom to focus on generating returns for clients.

We appointed Micah Martin, CFA, as our Director of Research to provide dedicated leadership to our U.S. research team. This structure enables more mentoring and professional development opportunities for our research team. With our portfolio managers freed from operational responsibilities, there are also more opportunities for collaboration within our deep investment team. We are confident the changes made to our management infrastructure have positioned Diamond Hill to thrive for the long term.

Financial Results

Diamond Hill is starting 2021 in a much stronger position than 2020. Assets under management finished the year at $26.4 billion compared with $23.4 billion at the start of the year. Importantly, the $3.0 billion in growth came from both net client inflows of $1.5 billion and market appreciation of a similar amount. We saw positive client flows in our Large Cap and Mid Cap strategies as well as in each of our four fixed income strategies. These positive flows were partially offset by outflows in our Long-Short, Small Cap and Small-Mid Cap strategies. Revenue declined 7% to $126.4 million in 2020. While we grew assets 13% during the year, our average assets under management were approximately the same as 2019 due to the severe market downturn in the first half of the year in response to the pandemic. Our average advisory fee rate declined from 0.59% to 0.54% due to the shift in asset mix to lower fee strategies.

We generated net operating income of $45.5 million in 2020, a decrease of 5% from 2019, and our operating margin increased from 35% in 2019 to 36% in 2020. We focus on net operating income as adjusted, after tax, which excludes the gains and losses on deferred compensation plan investments that flow through operating income. Net operating income, as adjusted, after tax, was $35.1 million in 2020 compared with $40.2 million in 2019. This equates to $10.91 per share in 2020 compared with $11.71 per share in 2019. Our operating profit margin, as adjusted, was 38% in 2020 compared with 39% in 2019.

As stewards of our business, our goal is to grow the long-term intrinsic value of our firm. Over the last five years, important fundamental indicators of Diamond Hill's intrinsic value per share have increased. Assets under management increased more than 50%, and tangible book value per share almost doubled, from $30.84 in 2015 to $58.09 in 2020. Net operating income, as adjusted, after tax, per share has remained relatively flat at $10.91 in 2020 compared to $11.17 in 2015. 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 $42.00 per share. While we expect the share price to converge with the value of the business over time, when the share price deviates significantly from intrinsic value over shorter periods, it does not change our long-term focus. When our share price is trading significantly below our estimate of intrinsic value, we may take the opportunity to buy back shares.

In February 2021, we announced that we entered into a definitive agreement to enable Brandywine Global Investment Management to acquire the business of Diamond Hill's high yield-focused mutual funds—the High Yield and Corporate Credit Funds. The transaction is expected to close in the third quarter of 2021, subject to customary closing conditions, including fund shareholder approval. In connection with the transaction, two portfolio managers and a research associate will join Brandywine Global's credit team. At closing, Diamond Hill will receive an initial cash payment of up to $9.0 million, and may receive additional payments totaling up to $13.0 million based on the net revenue of the acquired funds on the one-year anniversary of the closing date.

Capital Allocation

Our approach to capital allocation is designed to grow the intrinsic value of the business by investing in new and existing strategies and ensuring we have sufficient cash to run the business in any market environment. When we believe we have more capital than is necessary to achieve those aims, we will continue to return capital to shareholders.

Beginning in the fourth quarter of 2018, we implemented a share repurchase plan. Since that time, we have repurchased approximately 480,000 shares totaling $65 million, which represents 13.6% of our shares outstanding when the plan started. We have $35 million remaining in our current 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.

After considering strategic uses of capital for seeding our strategies and share repurchases, we then evaluate any excess capital when considering dividends to be paid to our shareholders. Our $12.00 per share dividend in 2020 marked the 13th consecutive year that we paid a special dividend.

Given our history of consistently generating excess cash flow, in October we announced plans to institute a regular quarterly dividend of $1.00 per share starting in the first quarter of 2021. In addition, each year we will consider paying an additional special dividend.

Conclusion

When I joined Diamond Hill in September 2019, the last thing I expected was to be navigating our business through the first (and hopefully only) global pandemic of our lifetimes. The loss we have seen across the world is devastating. The long-term consequences of the pandemic are far-reaching and may never be fully understood. My heart goes out to all those who have lost loved ones and friends.

These events have helped me realize how proud I am to be part of the Diamond Hill team. Our associates handled the extreme disruption and loss of the last year with compassion and professionalism and, despite personal challenges, always put our clients' interests first. I have also been impressed by our team's ability to remain focused on the long term—ensuring we are making sound investment decisions and have the right infrastructure in place to keep meeting client needs far into the future.

Diamond Hill is emerging from the challenges of the last year with fresh perspectives. Some things have not changed—most importantly our commitment to excellent outcomes that help improve clients' lives. In other ways, we are proud to have changed, and we are emerging as a more nimble, focused and innovative business, ready to evolve as the industry and our clients require. I am excited and energized about the future we face, and look forward to working with our fantastic team of associates to deliver for our clients. I am grateful for the partnership of our associates, clients and shareholders that enables us to deliver on our vision.

Sincerely,

Heather E Brilliant

Heather Brilliant
Chief Executive Officer

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, 2020, 2019, 2018, 2017, 2016, and 2015 respectively.

	Year Ended December 31,					
(in thousands, except percentages and per share data)	2020	2019	2018	2017	2016	2015
Total revenue	$ 126,388	$ 136,624	$ 145,628	$ 145,202	$ 136,103	$ 124,426
Net operating income, GAAP basis	$ 45,538	$ 47,935	$ 71,256	$ 67,001	$ 63,069	$ 58,720
Non-GAAP adjustments:						
Gains (losses) on deferred compensation plan investments, net[1]	2,219	5,977	(2,122)	2,382	1,837	(234)
Net operating income, as adjusted, non-GAAP basis[2]	47,757	53,912	69,134	69,383	64,906	58,486
Non-GAAP adjustments:						
Tax provision on net operating income, as adjusted, non-GAAP basis[3]	(12,668)	(13,680)	(19,542)	(25,704)	(23,626)	(21,090)
Net operating income, as adjusted, after tax, non-GAAP basis[4]	$ 35,089	$ 40,232	$ 49,592	$ 43,679	$ 41,280	$ 37,396
Net operating income, as adjusted after tax per diluted share, non-GAAP basis[5]	$ 10.91	$ 11.71	$ 14.11	$ 12.65	$ 12.09	$ 11.13
Diluted weighted average shares outstanding, GAAP basis	3,215	3,437	3,515	3,452	3,413	3,360
Operating profit margin, GAAP basis	36 %	35 %	49 %	46 %	46 %	47 %
Operating profit margin, as adjusted, non-GAAP basis[6]	38 %	39 %	47 %	48 %	48 %	47 %

(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 us.

(2) *Net operating income, as adjusted:* This non-GAAP measure represents our 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 12, 2021

Dear Shareholders:

We cordially invite you to attend the 2021 Annual Meeting of Shareholders of Diamond Hill Investment Group, Inc., to be held at Diamond Hill Investment Group, Inc., 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215, on Monday, April 26, 2021 at 9:00 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. The business portion of the Annual Meeting will continue as previously scheduled. However, due to the coronavirus (COVID-19) pandemic, Diamond Hill has decided to hold its customary management presentation and question and answer session virtually on Tuesday, May 4, 2021 at 2:00 p.m. Eastern Daylight Saving Time. **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**. Returning the enclosed proxy card 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,

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 26, 2021

Notice is hereby given that the 2021 Annual Meeting of Shareholders (the "Annual Meeting") of Diamond Hill Investment Group, Inc. (the "Company"), will be held at Diamond Hill Investment Group, Inc., 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215, on Monday, April 26, 2021 at 9:00 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 2022 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, 2021;
3) a non-binding, advisory resolution to approve the compensation of the Company's named executive officers;
4) the approval and adoption of the Diamond Hill Investment Group, Inc. Employee Stock Purchase Plan; and
5) such other business as may properly come before the Annual Meeting or any adjournment thereof.

Action may be taken on the foregoing proposals at the Annual Meeting or at any adjournment of the Annual Meeting. The Board of Directors has fixed the close of business on March 1, 2021, 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.

COVID-19 Protocols

In light of the continuing risk posed by the coronavirus ("COVID-19") pandemic, we strongly encourage shareholders to return the enclosed proxy card or vote by phone or electronically prior to the Annual Meeting rather than attending in person. Due to the social distancing mandates of local and state authorities related to COVID-19, we are limiting attendance at the meeting. We ask that you register in advance if you plan to attend the Annual Meeting by contacting Carlotta D. King, Secretary, at (614) 255-3333 no later than Wednesday, April 21, 2021 at 5:00 p.m. Eastern Daylight Saving Time to allow us to plan appropriately for the attendees. At the Annual Meeting, you will be asked to present the enclosed proxy card (or, if you hold your shares in "street name", 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.

Additional protocols will also be in place at the Annual Meeting to protect the safety and well-being of our directors, employees and guests. These protocols include requiring all attendees to wear face masks that cover both nose and mouth, a temperature check, and answering certain health related questions upon arrival. All people attending the meeting in person must bring their own and wear their face masks, and we reserve the right to refuse entrance to anyone who refuses to comply with our safety protocols.

Social distancing requirements will also be enforced. In the event that, prior to the meeting, any orders or limitations are imposed by applicable authorities that would limit or otherwise affect meeting attendance or the safety protocols, the Company will comply with any such limitations or orders. We urge you to check whether any such orders or limitations have been imposed prior to attending the Annual Meeting in person.

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,

Carlotta D. King

Carlotta D. King, Secretary

Columbus, Ohio
March 12, 2021

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 26, 2021:
The Proxy Statement and the Company's 2020 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 26, 2021

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 2021 Annual Meeting of Shareholders (the "Annual Meeting") to be held at the offices of Diamond Hill Investment Group, Inc., 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215, at 9:00 a.m., Eastern Daylight Saving Time, on April 26, 2021, and any adjournment thereof. A copy of the Notice of Annual Meeting accompanies this Proxy Statement. This Proxy Statement and the enclosed proxy are first being mailed to shareholders on or about March 12, 2021. Only our shareholders of record at the close of business on March 1, 2021, 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 2022 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 as our independent registered public accounting firm for the fiscal year ending December 31, 2021;

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

4) to approve and adopt the Diamond Hill Investment Group, Inc. Employee Stock Purchase Plan; and

5) to transact such other business that may properly come before the Annual Meeting or any adjournment thereof.

Those common shares represented by: (i) properly signed proxy cards received by us prior to the Annual Meeting, or (ii) properly authenticated voting instructions recorded electronically over the Internet or by telephone prior to 7:00 p.m., Eastern Daylight Saving Time on April 25, 2021 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 Diamond Hill Investment Group, Inc., 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215, on Monday, April 26, 2021, at 9:00 a.m., Eastern Daylight Saving Time.

Q: How do I attend the Annual Meeting?

A: We currently intend to hold the business portion of the Annual Meeting in person as scheduled. However, due to the COVID-19 pandemic, we have decided to hold our customary management presentation and question and answer session virtually on Tuesday, May 4, 2021 at 2:00 p.m. Eastern Daylight Saving Time.

With respect to the Annual Meeting, in light of the continuing risk posed by the COVID-19 pandemic, we strongly encourage shareholders to return the enclosed proxy card or vote by phone or electronically prior to the Annual Meeting rather than attending in person. We also plan to limit the in-person attendance to shareholders as of the close of business on March 1, 2021, due to the social distancing mandates of local and state authorities related to COVID-19 and the overall safety of attendees. If you plan to attend the Annual Meeting in person, we ask that you register in advance by contacting Carlotta D. King, Secretary, at (614) 255-3333 no later than Wednesday, April 21, 2021 at 5:00 p.m. Eastern Daylight Saving Time.

Additional protocols will also be in place at the Annual Meeting to protect the safety and well-being of our directors, employees and guests. These protocols include requiring all attendees to wear face masks that cover both nose and mouth, a temperature check, and answering certain health related questions upon arrival. All people attending the meeting in person must bring their own and wear their face masks, and we reserve the right to refuse entrance to anyone who refuses to comply with our safety protocols.

Social distancing requirements will also be enforced. In the event that, prior to the meeting, any orders or limitations are imposed by applicable authorities that would limit or otherwise affect meeting attendance or the safety protocols, the Company will comply with any such limitations or orders. We urge you to check whether any such orders or limitations have been imposed prior to attending the Annual Meeting in person.

Q: What may I vote on at the Annual Meeting?

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 2022 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, 2021;
- a non-binding, advisory resolution to approve the compensation of our named executive officers;
- the approval and adoption of the Diamond Hill Investment Group, Inc. Employee Stock Purchase Plan; and
- such other business as may properly come before the Annual Meeting or any adjournment thereof.

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 Sunday, April 25, 2021. 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 shares 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 LLP as our independent registered public accounting firm for the 2021 fiscal year is considered a routine matter, 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 any one of three ways:

- Send a written statement to Carlotta D. King, the Company's Secretary, at Diamond Hill Investment Group, Inc., 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215, stating that you would like to revoke your proxy, which must be received prior to the Annual Meeting;

- Send a newly signed and later-dated proxy card, which must be received prior to the Annual Meeting, or submit later-dated electronic voting instructions over the Internet or by telephone no later than 7:00 p.m., Eastern Daylight Saving Time on April 25, 2021; or

- Attend the Annual Meeting <u>and</u> 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 for which you are the record holder in person at the Annual Meeting. If you choose to attend, please bring the enclosed proxy card and a form of identification, even if you have registered to attend the Annual Meeting. 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, even if you have registered to attend the Annual Meeting. To obtain directions to attend the Annual Meeting and vote in person, please call Carlotta D. King, Secretary, at (614) 255-3333 or visit the Company's website, https://www.diamond-hill.com/contact/. In light of the continuing risk posed by the COVID-19 pandemic, we strongly encourage shareholders to return the enclosed proxy card or vote by phone or electronically prior to the Annual Meeting rather than attending in person.

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 Carlotta D. King, 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 1, 2021, the record date, will be entitled to vote at the Annual Meeting. As of the record date, there were 3,160,019 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 LLP ("KPMG") as the Company's independent registered public accounting firm for fiscal year 2021.

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.

Approval and adoption of the Diamond Hill Investment Group, Inc. Employee Stock Purchase Plan. The affirmative vote of the holders of a majority of the shares cast on the proposal is required to approve and adopt the Employee Stock Purchase Plan.

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, the advisory approval of named executive officer compensation, or the approval and adoption of the Diamond Hill Investment Group, Inc. Employee Stock Purchase Plan.

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, 2020 (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 Carlotta D. King, Secretary, at Diamond Hill Investment Group, Inc., 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 1, 2021, 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) the Company's named executive officers, and (d) all of the Company's 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 its 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]
Heather E. Brilliant	29,161	(2)	*
Richard S. Cooley	5,279		*
Randolph J. Fortener	8,600		*
James F. Laird	34,000		1.1 %
Thomas E. Line	19,695	(2)	*
Paula R. Meyer	2,379		*
Bradley C. Shoup	7,200		*
Nicole R. St. Pierre	2,379		*
Directors, nominees, and executive officers as a group (8 persons)	108,693		3.4 %
All other employees of the Company (125 persons)	411,791	(3)	13.0 %
5% Beneficial Owners			
BlackRock, Inc.[4]	246,279		7.8 %
Wells Fargo & Company(5)	163,055		5.2 %

(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 3,160,019, which was the total number of shares that were issued and outstanding as of March 1, 2021.

(2) Includes 473 and 1,294 shares for 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) Includes all other employees of the Company not listed above as of March 1, 2021. Each employee has sole voting power over the shares of such employee reflected in the table, except for the 73,333 shares that are held in the 401(k) Plan, over which the Trustee of the 401(k) Plan possesses voting power. Certain shares are subject to restrictions on the power to dispose of the shares. The employees do not constitute a Group as defined by Rule 13d-1 of the Exchange Act.

(4) Based on information contained in Schedule 13G/A filed with the SEC on January 29, 2021, 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 Life Limited, BlackRock Fund Managers Ltd, BlackRock Asset Management Schweiz AG, and BlackRock Investment Management, LLC) of shares as of December 31, 2020. This Schedule 13G/A reported that BlackRock, Inc., through its subsidiaries, had sole voting power over 241,314 shares and sole dispositive power over 246,279 shares. The address for BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055.

(5) Based on information contained in Schedule 13G/A filed with the SEC on February 11, 2021, by Wells Fargo & Company 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 Incorporated, and Wells Fargo Bank, National Association) of shares as of December 31, 2020. This Schedule 13G/A reported that Wells Fargo & Company, through its subsidiaries, had sole voting power and dispositive power over 4,856 shares, shared voting power over 7,317 shares, and shared dispositive power over 158,199 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, as amended, were met during the fiscal year ended December 31, 2020 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 24, 2021, director Bradley C. Shoup notified the Company that he intended to retire from the Board upon expiration of his current term at the Annual Meeting. As a result, he will not be nominated 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 current directors, to hold office until the 2022 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 Richard S. Cooley, 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 Heather E. 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 44, 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 an MBA from the University of Chicago. Ms. Brilliant also holds the Chartered Financial Analyst designation and is past chair and served as a member of the CFA Institute Board of Governors from 2013-2020.

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 and industry executive.

Richard S. Cooley, age 52, was appointed a director in October 2020, and currently serves on the Audit Committee, 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. During the past five years, Mr. Cooley has primarily and intermittently served as a teaching assistant at the University of Chicago. From 2007 to 2013, Mr. Cooley served as Morningstar, Inc.'s Chief Financial Officer, and was responsible for the firm's investor relations, financial reporting, corporate finance, tax, corporate communications, and U.S. national sales teams. Prior to becoming Chief Financial Officer ("CFO"), from 2003 to 2007 Mr. Cooley was CEO of Morningstar's operations in Australia and New Zealand. Mr. Cooley also established Morningstar's government affairs function.

Mr. Cooley holds Bachelor of the Arts and Master of the Arts degrees from Illinois State University, and a Master of the Arts degree from the University of Chicago. Mr. Cooley currently is a PhD candidate in the Department of Political Science at the University of Chicago.

Mr. Cooley's qualifications to serve on the Board include his substantial experience in accounting and financial matters due to serving as CFO of a global, publicly-traded financial services firm, his experience as CEO of a division of a large financial services firm, as well as his experience serving as a board member for numerous for-profit companies.

Randolph J. Fortener, age 67, 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 64, 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 66, was appointed as a director of the Company on February 20, 2019, is the Chair of the Nominating and Governance Committee, and currently serves on the Audit 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.

Nicole R. St. Pierre, age 48, 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, RICHARD S. COOLEY, RANDY J. FORTENER, JAMES F. LAIRD, PAULA R. MEYER, AND NICOLE R. ST. PIERRE AS DIRECTORS OF THE COMPANY.

THE BOARD OF DIRECTORS AND COMMITTEES

The Board held a total of four regularly scheduled meetings and one special meeting during the year ended December 31, 2020, and each director attended at least 75% of all Board and applicable committee meetings. Consistent with our Corporate Governance Guidelines, the directors met in executive session at each regularly scheduled Board meeting in 2020. Our Corporate Governance Guidelines provide that all directors are expected to attend each annual meeting of shareholders.

Although we do not have a formal policy requiring directors' attendance at Annual Meetings of Shareholders, our Corporate Governance Guidelines provide that all directors are expected to attend each annual meeting of shareholders. However, due to applicable health orders issued in connection with the COVID-19 pandemic and to mitigate risks to the health and well-being of our employees, shareholders, communities and other stakeholders, the Company limited attendance at the 2020 Annual Meeting of Shareholders to a small contingent of the Company's officers to carry out the routine legal requirements of the meeting and a proxy to cast ballots in accordance with submitted proxy votes. Therefore, our then current directors other than our Chair, Mr. Laird, did not attend the 2020 Annual Meeting of Shareholders.

Corporate Governance

The Board has three standing committees: the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee. The Board has adopted a written charter for each Committee. Current copies of each committee charter and our Corporate Governance Guidelines are available on our website, ir.diamond-hill.com, under the heading "Corporate Governance".

The Board has adopted a Code of Business Conduct and Ethics for principal executive and senior financial officers of the Company. 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 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. Cooley, Mr. Fortener (Chair), Mr. Laird, Ms. Meyer, and Ms. St. Pierre serve on the Audit Committee, which met four times during 2020. 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. Cooley, Mr. Fortener, and Mr. Laird also meet the criteria to be an audit committee financial expert as defined by the SEC. Following the Annual Meeting of Shareholders, it is expected that Mr. Cooley will succeed Mr. Fortener as Chair of the Audit Committee.

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. Cooley, Mr. Fortener, Mr. Laird, Ms. Meyer, and Ms. St. Pierre (Chair) serve on the Compensation Committee, which met three times during 2020. 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: (i) review and approve the Company's executive compensation policies, (ii) evaluate the performance of our executive officers in light of corporate goals and objectives approved by the Compensation Committee, (iii) approve the annual salaries, bonuses, stock grants, and other benefits, direct and indirect, of our executive officers, (iv) make recommendations to the full Board with respect to incentive compensation plans and equity-based plans, and (v) 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 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. Cooley, Mr. Fortener, Mr. Laird, Ms. Meyer (Chair), and Ms. St. Pierre serve on the Nominating and Governance Committee, which met three times during 2020. The Board has determined that each of these committee members meets the independence criteria of NASDAQ.

The primary purpose of the Nominating and Governance Committee is to maintain and cultivate the effectiveness of the Board and oversee the Company's governance policies. Among the 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: (i) identifies, evaluates, and nominates Board candidates, (ii) reviews compliance with director stock ownership guidelines, and (iii) 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 2020.

Director	Audit	Compensation	Nominating and Governance
Heather E. Brilliant	—	—	—
Richard S. Cooley	Member	Member	Member
Randolph J. Fortener	Chair	Member	Member
James F. Laird	Member	Member	Member
Paula R. Meyer	Member	Member	Chair
Bradley C. Shoup	Member	Member	Member
Nicole R. St. Pierre	Member	Chair	Member
Number of Meetings in 2020	4	3	3

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"). Historically, directors received long-term cliff vested restricted stock awards as the sole form of compensation for the entirety of their service as directors. Restricted stock awards were granted upon appointment to the Board and at the discretion of the Board upon recommendation by the Compensation Committee and were subject to such terms and conditions as may be established by the Compensation Committee consistent with terms of the 2014 Plan.

In 2020, the Compensation Committee considered changes to director compensation that are more consistent with current industry practices while continuing to align the interests of our directors with the long-term interests of our shareholders. The Compensation Committee engaged McLagan Data & Analysis ("McLagan"), an independent compensation consultant, to evaluate the Company's director compensation program. After reviewing the McLagan evaluation and considering other factors and information, the Compensation Committee concluded that the compensation structure for non-employee directors required revision. Specifically, the Compensation Committee determined that the use of long-term cliff vested restricted stock awards as the sole form of compensation for the entirety of directors' service needed to be reconsidered. As a result, in 2020, the Compensation Committee recommended that, beginning January 1, 2021, our compensation structure for directors be comprised of an annual cash award and annual stock award with a one-year vesting period, and annual chair fees, where applicable.

The Board approved the Compensation Committee's recommendation and compensation arrangements for directors with partial-year service, as well as the appropriate transition of compensation for existing directors from the current to new structure. The Board may, on occasion, pay our directors additional cash fees in extraordinary circumstances although it did not do so in 2020.

In October 2020, Mr. Cooley was appointed to the Board. Given his part-year service in 2020 and the pending change in our director compensation structure, the Compensation Committee and the Board approved a cash payment to Mr. Cooley in the amount of $38,750 for the fourth quarter of 2020.

The following table sets forth information regarding the compensation earned by, or paid to, non-employee directors who served on our Board during the fiscal year ended December 31, 2020.

2020 Director Compensation[1]

Name	Fees Earned or Paid in Cash	Stock Awards	All Other Compensation	Total
Heather E. Brilliant	$ —	$ —	$ —	$ —
Richard S. Cooley	$ 38,750	$ —	$ —	$ 38,750
Randolph J. Fortener	$ —	$ —	$ —	$ —
James F. Laird	$ —	$ —	$ —	$ —
Paula R. Meyer	$ —	$ —	$ —	$ —
Bradley C. Shoup	$ —	$ —	$ —	$ —
Nicole R. St. Pierre	$ —	$ —	$ —	$ —

(1) The above table omits certain columns where no compensation was awarded or earned.

Outstanding Stock Grants to Directors

The below table shows the amount of unvested restricted stock awards outstanding to directors as of December 31, 2020 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
Richard S. Cooley[1][2]	—	—	—	—	—	—
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[2]	8,000	Ten Years	2/20/19 – 4/30/29	$1,245,600	2/20/19	4/30/29
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[2]	8,000	Ten Years	2/20/19 – 4/30/29	$1,245,600	2/20/19	4/30/29

(1) As discussed above, Mr. Cooley will be entitled to compensation consistent with other non-employee directors beginning in 2021.

(2) In connection with approved changes to the director compensation structure beginning in 2021, 1,600 shares granted to each of Ms. Meyer and Ms. St. Pierre were accelerated and vested on January 1, 2021 with the remainder forfeited. In addition, on January 1, 2021, each of Mr. Cooley, Ms. Meyer, and Ms. St. Pierre received a grant of shares of which the fair value on the grant date was $115,000, and which will vest on January 1, 2022.

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 all of the shares granted to the director as compensation for his or her entire term of service on the Board.

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".

Board Leadership and Composition

We believe that separating the roles of Chair of the Board and CEO provides for a strong governance and oversight structure. 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.

Currently, five of our six director nominees qualify as independent under NASDAQ standards, with Ms. Brilliant, our CEO, being our only non-independent director. In addition, the Audit Committee, the Compensation Committee, and the Nominating and Governance 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-employee 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-employee 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, and 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-employee 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 will 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 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. In selecting nominees, the Nominating and Governance Committee considers, as applicable, independence, judgment, skills, diversity, character, community involvement, financial expertise, business experience, experience with similarly-sized companies and with publicly-traded companies, experience and skills relative to other Board members, ability to meet long-term interests of the Company and its shareholders and any additional criteria deemed appropriate by the Nominating and Governance Committee. In the event of a vacancy, including upon an increase in the number of directors, the Nominating and Governance Committee will identify, interview, examine, and make recommendations to the Board regarding appropriate candidates to fill such vacancy. When identifying potential director nominees we consider diversity among the various factors relevant to any particular nominee and the overall needs of the Board.

The Nominating and Governance Committee identifies potential candidates for the Board through principally suggestions from our directors and senior management and also through recommendations by shareholders. The Nominating and Governance Committee may also seek candidates through informal discussions with third parties. We have not historically retained search firms to help identify director candidates.

Generally, the Nominating and Governance Committee will identify potential candidates who at a minimum:

- 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.

All director candidates recommended by shareholders are evaluated using the same criteria as individuals nominated by the Board, the Nominating and Governance Committee, management and other sources. Shareholder recommendations for Board candidates should be directed in writing to the Company at 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215, Attention: Secretary, and 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. There has been no transaction since the beginning of fiscal 2020 and there is no currently proposed transaction in which the Company was or is to be a participant that would be required to be disclosed pursuant to Item 404(a) of Regulation S-K. The Company has no policies or procedures for the review, approval or ratification of any transaction required to be reported under Item 404(a) of Regulation S-K, because, in the last 10 years, the Company has only been a party to one transaction that was required to be considered under Item 404(a). 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(a) of 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 2020 were Mr. Cooley, Mr. Fortener, Mr. Laird, Ms. Meyer, Mr. Shoup, and Ms. St. Pierre. No director who served on the Compensation Committee during 2020 currently is, or during 2020 was, an officer, employee, or former officer of the Company. However, Mr. Laird served as the Company's CFO until his retirement in 2014. No member of the Compensation Committee has or had any relationship during 2020 requiring disclosure by us under Item 404(a) of Regulation S-K. During 2020, 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 2020, Heather E. Brilliant, and Thomas E. Line were the Company's executive officers. 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 53, has served as the CFO and Treasurer of the Company since 2015 and is currently the President of the Diamond Hill Funds. 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 1989 to 2004, Mr. Line held various positions in the financial services industry, including seven years in various roles at KPMG. 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 in 2020; and
- Thomas E. Line, who served as our CFO and Treasurer in 2020.

Background

In the investment management industry, human capital is our most important resource. Attracting and retaining talent is a sustainable competitive advantage that allows us to deliver on our purpose and vision. We have been able to attract and retain high-quality employees due to:

- Our client-centric culture emphasized through our alignment of interest that ensures we only succeed when our clients succeed;
  - Significant employee ownership in all our investment strategies;
  - Portfolio Manager incentives that align with long-term investment results; and
  - Capacity discipline that protects our ability to add value;
- Shared Investment principles creating a cohesive suite of investment capabilities;
- Our strong corporate values – curiosity, ownership, trust and respect – that guide our corporate culture and support an inclusive workplace; and
- The nationally-competitive compensation and benefits we offer to our employees.

Competitive compensation is fundamental to sustain a business dependent on talented employees, and has a significant impact on profitability. Achieving profitability while retaining high-quality talent requires balancing the economics between our operating profit margin and compensating employees for their contributions.

At our 2020 Annual Meeting, our shareholders voted upon, and by 92% of the votes cast on the matter approved, an advisory resolution to approve the compensation of our named executive officers. The Compensation Committee of the Board (the "Compensation Committee") believes that the results of the advisory vote on executive compensation support our previous compensation practices and the Compensation Committee's overall judgment related to our executive compensation practices. The Compensation Committee considered that endorsement in establishing the compensation of our named executive officers for 2020.

Compensation Program Objectives

Since our founding, aligning our interests directly with the clients we serve has been imperative. Inherent in this alignment is a passion for excellence enabling us to exceed client expectations. To achieve this vision, it is important that our compensation philosophy attract, retain, and motivate employees who embody our values, act like owners and advocate for client outcomes.

We maintain a long-term approach to managing our business and we aim to invest in our employees throughout their careers. We believe employees should be paid competitively for their contributions and have confidence that we are investing in them for the long term.

Our employees are paid a competitive base salary, provided with various benefits, and participate in an annual performance incentive program. We are committed to ensuring our shareholders' and employees' interests align by giving each permanent employee a new hire equity grant to inspire an ownership mentality from their first day of employment. In line with our long-term performance horizon, these awards cliff vest after five years of employment to promote long-term employee ownership and employee retention. Employees have further opportunities to grow their ownership stake through the new Employee Stock Purchase Plan, if approved, the option to receive the 401(k) match in company stock and, for certain roles, eligibility to receive additional shares of restricted stock through a long-term incentive program.

Performance-Focused Incentives

Our primary business objective is to 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. 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, investment performance is the primary quantitative measurement that directly aligns their annual cash incentive compensation with client and firm outcomes. The compensation program for employees who are not a part of our investment team predominately considers individual, team, and company performance as the main drivers of incentive compensation determinations.

Long-Term Incentives – Restricted Stock Grants with Three-Year Graded Vesting

In 2020, management approved changes to our long-term incentive ("LTI") program to permit annual LTI grants with graded vesting. Beginning in 2021, grants made under this revised LTI program will have a three-year vesting schedule with one-third vesting each year. This program replaces any future (non-new hire-related) five-year cliff vested grants and will make up part of the compensation for certain roles, in addition to the annual performance incentive. This program is designed to incentivize employees who have a significant impact on client outcomes and business results.

Compensation Setting Process

Role of the Compensation Committee. The purpose of the Compensation Committee is to oversee and approve the compensation programs of the Company's executive officers and directors, including executive compensation, compensation deferral plans, stock incentive and option plans, performance incentive award programs, fringe benefit plans, other employee plans and executive employment contracts. The Compensation Committee is specifically required to fulfill certain duties and responsibilities including, but not limited 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 LTI 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;
- Review and recommend to the Board the compensation for directors, including committee and committee chair fees and other compensation as appropriate;
- With respect to employee retirement plans and employee benefit plans (*i.e.*, medical, life insurance, etc.), evaluate on a periodic basis the competitiveness of the benefit plans and adopt necessary amendments to the extent permitted by law and subject to the terms of the benefit plans;

- 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;
- Evaluate whether the Company's compensation policies, plans and practices are reasonably designed in coordination with the Company's risk oversight policies to not create incentives for unnecessary or excessive risk taking; and
- Oversee management's engagement and communications with shareholders and proxy advisory firms on executive compensation matters, including with respect to shareholder votes on executive compensation.

The Compensation 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 Compensation Committee retains the discretion to approve individual executive 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 Compensation Committee regarding all elements of CFO compensation paid. The CEO's proposed changes to the CFO's compensation are based on the CFO's performance, the compensation of individuals with comparable responsibilities in competing or similar organizations, and the business results of the Company. At the Compensation Committee's request, management attends Compensation Committee meetings to provide general employee compensation and other information to the Compensation Committee, including information regarding the design, implementation and administration of our compensation plans. The Compensation Committee also meets in executive sessions without the presence of any executive officer whose compensation the Compensation Committee is scheduled to discuss.

Use of Compensation Consultants and Surveys in Determining Executive Compensation. The Compensation 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.
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. This analysis provides the Compensation Committee with a general overview of compensation trends in the asset management industry. The Compensation 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 Compensation 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 Compensation Committee considers when determining executive compensation. Management and the Compensation 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.

<u>*Elements of Compensation*</u>

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 named executive officers was paid in the form of either cash bonuses and/or equity grants.

Annual Cash Bonus. The Compensation Committee awarded a discretionary cash bonus to Ms. Brilliant to compensate her for her leadership and overall contributions to the Company in fiscal year 2020. The Compensation Committee believes such bonus provided the Compensation Committee with the flexibility to consider all aspects of Ms. Brilliant's performance and her contributions to the Company as CEO and President. In determining the amount of Ms. Brilliant's cash bonus, the Compensation Committee considered the Company's overall operating results for 2020, the Company's achievements despite the COVID-19 pandemic, and the target compensation levels detailed in Ms. Brilliant's employment agreement.

The Compensation Committee also awarded a discretionary cash bonus to Mr. Line to compensate him for his performance and overall contributions to the Company in fiscal year 2020. The Compensation Committee believes that a discretionary cash bonus provided the Compensation 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 Compensation Committee considered the Company's overall operating results for 2020, contributions by Mr. Line that were not reflected in our operating results, and broad market compensation data.

Discretionary Stock Bonus to Ms. Brilliant. In line with Ms. Brilliant's employment agreement, the Compensation Committee awarded a discretionary vested stock bonus of $1,000,000 to Ms. Brilliant, to compensate her for her strong performance and overall contributions to the Company in fiscal year 2020. This discretionary stock bonus vested immediately upon grant and is not subject to any service-based or time-based conditions. Similar to the cash bonus awarded to Ms. Brilliant, the Compensation Committee believes a discretionary stock bonus provides the Compensation 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 Compensation Committee considered the Company's overall operating results for 2020, the desire to further align her interests with the Company and its shareholders, and the target compensation levels detailed in Ms. Brilliant's employment agreement.

Long-Term Incentive Compensation. As part of Ms. Brilliant's 2020 compensation, the Compensation Committee granted an LTI award of $300,000 to Ms. Brilliant pursuant to the Company's 2014 Plan in recognition of her contributions to and future impact on the Company. This restricted stock award will be granted on March 31, 2021 and is subject to a scheduled vesting of one-third per year on each April 1st from 2022 through 2024, and thus, it is not included in the summary compensation table below. The Compensation Committee believes this compensation structure strongly aligns the long-term interests of Ms. Brilliant with those of the Company and its shareholders.

As part of Mr. Line's 2020 compensation, the Compensation Committee granted an LTI award of $250,000 to Mr. Line pursuant to the Company's 2014 Plan in recognition of his contributions to and future impact on the Company. This restricted stock award will be granted on March 31, 2021 and is subject to a scheduled vesting of one-third per year on each April 1st from 2022 through 2024, and thus, it is not included in the summary compensation table below. The Compensation Committee believes this compensation structure strongly aligns the long-term interests of Mr. Line with those of the Company and its shareholders.

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 and the Diamond Hill Variable Term Deferred Compensation Plan (each individually, a "Deferred Compensation Plan", and together, the "Deferred Compensation Plans"). Each named executive officer is eligible to participate in one of the Deferred Compensation Plans, along with other employees of the Company. The terms and conditions of the Deferred Compensation 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 Compensation 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 Compensation 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 compensation program, the Compensation Committee considers how our current compensation programs, including the incentives created by compensation awards, affect the Company's risk profile. In addition, the Compensation 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 Compensation 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;
- Our portfolio managers have meaningful ownership in the strategies they manage;
- A significant portion of incentive compensation is in the form of long-term equity-based awards;
- The Compensation Committee's discretionary authority to adjust annual incentive awards for named executive officers;
- 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 Compensation 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 Compensation 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 Compensation Committee and the Board, be returned to the Company or an additional payment may be made to an employee;
- If an employee engages in fraud or misconduct that contributes to the need for a financial restatement, or violates any law or regulation or any policy or procedure of the Company, then we may, in the sole discretion of the Compensation Committee and the Board, recoup all or a portion of the employee's incentive compensation; and
- If the Compensation Committee determines that the Company's previously issued financial statements are restated as a result of error, omission, fraud or non-compliance with financial reporting requirements, then we may recoup, in the sole discretion of the Compensation Committee and the Board, all or a portion of the employee's incentive compensation.

The policy is intended to provide enhanced safeguards against certain types of employee misconduct and provide enhanced protection to, and alignment with, shareholders. These provisions are in addition to any policies or recovery rights that are provided under applicable laws, including the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, each as amended.

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, 2020. 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	13,399	25,480	Yes
Thomas E. Line	Chief Financial Officer	3x Salary	5,024	19,695	Yes

(a) Based on a per share price of $149.27, which was the closing price of our common shares on December 31, 2020, 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	2020	$ 400,000	$ 600,000	$ 1,000,000	(2)	$ 46,174	$2,046,174
Chief Executive Officer	2019	$ 133,333	$ 230,000	$ 3,380,000	(3)	$ 1,020,656	$4,763,989
and President	2018	$ —	$ —	$ —		$ —	$ —
Thomas E. Line	2020	$ 250,000	$ 450,000	$ —		$ 43,500	$ 743,500
Chief Financial Officer	2019	$ 250,000	$ 250,000	$ 1,545,600	(4)	$ 43,100	$2,088,700
and Treasurer	2018	$ 250,000	$ 225,000	$ —		$ 41,225	$ 516,225

(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 $1,000,000 which immediately vested upon grant and without any resale restriction. This grant was not based upon any pre-established performance goals. While Ms. Brilliant's 2020 compensation included an LTI award of restricted stock, because the LTI will not be granted until March 31, 2021, it is not reflected in this summary compensation table.

(3) 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. 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.

(4) 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. 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. This grant was not based upon any pre-established performance goals. While Mr. Line's 2020 compensation included an LTI award of restricted stock, because the LTI will not be granted until March 31, 2021, it is not reflected in this summary compensation table.

(5) 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	2020	$ 40,174	$ 6,000		$ 46,174
	2019	$ 18,769	$ 1,867	$ 1,000,000	$ 1,020,656
	2018	$ —	$ —	$ —	$ —
Thomas E. Line	2020	$ 37,500	$ 6,000		$ 43,500
	2019	$ 37,500	$ 5,600		$ 43,100
	2018	$ 35,625	$ 5,600		$ 41,225

(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, 2020. To determine the median employee, we included 2020 base salary and incentive compensation (annualized for those employees that were not employed for the full year of 2020). 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	$	299,100
Heather E. Brilliant, CEO, total annual compensation	$	2,046,174 (1)
Ratio of CEO to Median Employee Compensation		6.8 : 1

(1) The compensation shown for the CEO includes the total annual compensation for Ms. Brilliant for 2020 as shown in the Summary Compensation Table.

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)	$	341,570
Heather E. Brilliant, CEO, total annual compensation (1)	$	2,646,174
Ratio of CEO to Median Employee Compensation		7.7 : 1

(1) The compensation shown above includes $42,470 and $600,000, respectively in GAAP Accounting compensation expense related to long-term restricted stock awards.

Grants of Plan-Based Awards for 2020

The following table sets forth information regarding the awards granted to each of the named executive officers during the year ended December 31, 2020 under the 2014 Plan.

Name	Grant Date	Compensation Committee Action Date [(1)]	Estimated Possible Payouts Under Equity Incentive Plan Awards Threshold #	Target #	Maximum #	Grant Date Fair Value of Stock and Options Awards $
Heather E. Brilliant [(2)]	03/02/2020	02/26/2020	—	2,645	—	380,000
Thomas E. Line [(2)]	03/02/2020	02/26/2020	—	2,088	—	300,000

(1) The Compensation Committee Action Date represents the date on which the Committee authorized the 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. The grants were fully vested upon issuance.

Outstanding Equity Awards at December 31, 2020

The following table summarizes all outstanding equity awards held by our named executive officers as of December 31, 2020.

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	$ 3,241,995
Thomas E. Line	8,000	$ 1,194,160

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

(2) The amount in this column represents the value of the awards shown, calculated as the product of the number of restricted shares underlying the award multiplied by $149.27, the closing market price of our common shares as of December 31, 2020.

Option Exercises and Stock Vested for 2020

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 2020.

	Stock Awards	
Name	Number of Shares Acquired on Vesting	Value Realized on Vesting
Heather E. Brilliant	2,645	$ 380,000
Thomas E. Line	2,088	$ 300,000

Pension Plans and Non-Qualified Deferred Compensation

We do not maintain any pension plans for named executive officers or other employees. We offer to our named executive officers and all other employees the opportunity to participate in one of the two 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, 2020.

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, 2020:

1. Her accrued but unpaid base salary and vacation and unreimbursed business expenses as of the date of termination ($0 at December 31, 2020);
2. Payments, if any, under other benefit plans and programs in effect at the time ($0 at December 31, 2020; 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, 2020);
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, 2020); and
5. Her accrued but unpaid annual cash bonus from the year prior to the date of termination ($600,000 at December 31, 2020).

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, 2020); and
- Full vesting of her initial restricted stock award of 21,719 shares, to the extent not previously vested in a Change in Control transaction ($3,241,995 at December 31, 2020).

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 as required by Item 402(b) of Regulation S-K 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, 2020.

Submitted by the Compensation Committee of the Board of Directors:

Richard S. Cooley
James F. Laird
Randolph J. Fortener
Paula R. Meyer
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 registered public accounting firm'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 to serve as our independent registered public accounting firm for fiscal year 2021. KPMG was first appointed to serve as our independent registered public accounting firm on October 24, 2012, and served as our independent registered public accounting firm for fiscal 2020.

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 year 2021.

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 FISCAL YEAR 2021.

If Proposal 2 is not approved, the Audit Committee will reconsider the appointment of KPMG as our independent registered public accounting firm for fiscal year 2021, 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 2020 and 2019.

	Year Ended 12/31/2020	Year Ended 12/31/2019
Audit Fees(1)	$ 235,000	$ 237,450
Audit-Related Fees	—	—
Tax Fees (2)	51,360	57,966
All Other Fees	—	—
Total Fees	$ 286,360	$ 295,416

(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.

Pre-approval 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 2020, 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". 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, 2020.

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, 2020. 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, 2020, 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, 2020, filed with the SEC.

Submitted by the Audit Committee of the Board of Directors:

Richard S. Cooley
Randolph J. Fortener, Chair
James F. Laird
Paula R. Meyer
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 2020 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 2021 Annual Meeting of Shareholders pursuant to Item 402 of Regulation S-K, 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 ITEM 402 OF REGULATION S-K.

PROPOSAL 4 - APPROVAL AND ADOPTION OF THE DIAMOND HILL INVESTMENT GROUP, INC. EMPLOYEE STOCK PURCHASE PLAN

Summary of the Employee Stock Purchase Plan

The following is a summary of the material terms of the Employee Stock Purchase Plan, which summary is qualified in its entirety by reference to the Employee Stock Purchase Plan, the complete text of which is attached to this proxy statement as Appendix A. We urge you to read the Employee Stock Purchase Plan.

Purpose. The purpose of the Employee Stock Purchase Plan is to foster and promote the Company’s long-term financial success and to increase shareholder value by: (a) providing participants with an opportunity to acquire an ownership interest in the Company, and (b) enabling the Company to attract and retain the services of outstanding individuals upon whose judgment, interest and dedication are important to the Company’s success.

Administration. The Compensation Committee of the Board will administer the Employee Stock Purchase Plan and will have full power and authority to:

- interpret the Employee Stock Purchase Plan and make all administrative decisions thereunder;
- establish, amend and rescind any rules and regulations relating to the Employee Stock Purchase Plan;
- establish the time, duration and terms of each offering period under the Employee Stock Purchase Plan, including the number of Company shares that will be available for purchase during such offering period; and
- make any other determinations and maintain such records and accounts that it deems necessary or desirable for the administration of the Employee Stock Purchase Plan.

To the extent permitted by law, the Compensation Committee may delegate any ministerial duties associated with the Employee Stock Purchase Plan. However, the Compensation Committee may not delegate any of its duties regarding the establishment of the timing and terms of any offering period for the purchase of Company shares under the Employee Stock Purchase Plan.

Eligibility. Generally, all persons who are regular full-time or part-time employees of the Company or its affiliates are eligible to participate in and purchase Company shares under the Employee Stock Purchase Plan. The only exceptions to this general eligibility rule are: (1) employees who are scheduled to work less than five (5) months in the calendar year; and (2) employees who own 5% or more of the shares of the Company.

Terms of Stock Purchase. All eligible employees may purchase up to the maximum number of Company shares permitted during an applicable offering period. However, notwithstanding any such limit, no eligible employee may purchase more than $25,000 of Company shares annually at the discounted price from the open market permitted under the Employee Stock Purchase Plan.

Stock Purchase Discount. The Internal Revenue Code of 1986, as amended (the "Code") permits companies to allow employees to purchase shares of company stock at a discount through plans established under Section 423 of the Code. The Employee Stock Purchase Plan will allow employees to purchase Company shares and receive the maximum discount of 15% permitted under the Code.

Restricted Stock. All stock purchased under the Employee Stock Purchase Plan will be held at the Company's transfer agent and subject to a twelve-month resale restriction, which will limit transferability of the stock until the expiration of that period. A new twelve-month resale restriction applies to each purchase of shares of Company stock under the Employee Stock Purchase Plan.

U.S. Federal Tax Elections. Eligible Employees can elect to purchase shares of Company stock using an after-tax deduction from their annual incentive compensation award or their regular monthly pay.

Adjustments. In the event of any share dividend, share split, recapitalization, merger, reorganization, consolidation, combination, spin-off, distribution of assets to shareholders, exchange of shares or any other change affecting the shares, the Compensation Committee will appropriately adjust: (1) the number of shares of Company stock that eligible employees have the right to purchase ("Purchase Rights"); (2) the aggregate number of shares of stock available or subject to outstanding Purchase Rights (as well as any share-based limits imposed under the Employee Stock Purchase Plan); (3) the purchase price, number of shares, and other limitations applicable to outstanding or subsequently issued Purchase Rights; and (4) any other factors, limits or terms affecting any outstanding or subsequently issued Purchase Rights.

Effect of Termination of Employment or Service. An employee whose employment with the Company or its affiliates for any reason terminates, including without limitation, due to termination for cause, death, disability, or retirement, will be deemed to have withdrawn from the Employee Stock Purchase Plan. Any cash amounts credited to the employee's plan account will be refunded to the employee (or to the employee's beneficiary, in the event of the employee's death).

Change in Control. In the event of a change in control (as such term is defined in the Employee Stock Purchase Plan), all shares of Company stock held in each participant's plan account will be made available to the participant under procedures developed by the transfer agent and the Compensation Committee.

Effective Date and Term. The Employee Stock Purchase Plan will become effective upon its approval by the shareholders and, unless earlier terminated, will continue until all the available shares of Company stock under the plan have been sold.

Amendment or Termination. The Board or Compensation Committee may terminate, suspend or amend the Employee Stock Purchase Plan at any time without shareholder approval except to the extent that shareholder approval is required to satisfy applicable requirements imposed by: (1) Rule 16b-3 under the Exchange Act, or any successor rule or regulation; (2) applicable requirements of Section 423 of the Code; or (3) any securities exchange, market, or other quotation system on or through on which the Company's securities are listed or traded. Also, no amendment to the Employee Stock Purchase Plan may: (1) cause the Plan to fail to meet requirements imposed by Rule 16b-3, or (2) without the consent of the affected participant adversely affect any Purchase Right issued before the amendment, modification or termination.

New Plan Benefits. The benefits and number of Company shares to be received by the participants under the Employee Stock Purchase Plan are not determinable because, under the terms of the Employee Stock Purchase Plan, participation in the plan is voluntary and purchases are based upon elections made by the participants. Future purchase prices are not determinable because they are based upon fair market value of Company shares in future periods. Each participant is limited to the $25,000 annual purchase restriction as well as the participant purchase restrictions for any applicable offering period, as described above.

THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL AND ADOPTION OF THE EMPLOYEE STOCK PURCHASE PLAN.

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 2022 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 12, 2021, 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 27, 2022 and not earlier than December 28, 2021. 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 Carlotta D. King, Secretary, at Diamond Hill Investment Group, Inc., 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, Equiniti Trust Company at P.O. Box 64874, St. Paul, Minnesota 55164-0874, or by phone at (800) 401-1957, or write to Ms. Carlotta D. King, 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

Carlotta D. King

Carlotta D. King
Secretary

APPENDIX A - EMPLOYEE STOCK PURCHASE PLAN

DIAMOND HILL INVESTMENT GROUP, INC.
EMPLOYEE STOCK PURCHASE PLAN

ARTICLE 1
PURPOSE

This Plan is intended to foster and promote the Company's long-term financial success and to increase shareholder value by (a) providing Participants with an opportunity to acquire an ownership interest in the Company, and (b) enabling the Company to attract and retain the services of outstanding individuals upon whose judgment, interest and dedication are important to the Company's success.

ARTICLE 2
DEFINITIONS

When used in this Plan, the following terms will have the meanings given to them in this Article unless another meaning is expressly provided elsewhere in this document or clearly required by the context. When applying these definitions, the form of any term or word will include any of its other forms.

2.1. *Act*. The Securities Exchange Act of 1934, as amended.

2.2. *Adoption Date*. October 27, 2020, the date that the Plan was originally adopted by the Board.

2.3. *Beneficiary*. The person who has the right to receive (or exercise) any Plan benefits (or rights) that are unpaid (or unexercised) if the Participant dies.

2.4. *Board*. The Company's Board of Directors.

2.5. *Change of Control*. Unless otherwise provided in any employment agreement between a Participant and the Company or any affiliate or in any other agreement between a Participant and the Company or any affiliate, the occurrence of any of the following:

(a) Any transaction or series of transactions, whereby any person (as that term is used in Section 13 and 14(d)(2) of the Act), is or becomes the beneficial owner (as that term is used in Section 13(d) of the Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; provided, that for purposes of this paragraph, the term "person" will exclude (i) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or an affiliate, (ii) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership in the Company, and (iii) any venture capital firm or other investor in securities of the Company that first purchases any such securities within the thirty (30) day period following the effective date of the Plan;

(b) Any merger, consolidation, other corporate reorganization or liquidation of the Company in which the Company is not the continuing or surviving corporation or entity or pursuant to which shares of Stock would be converted into cash, securities, or other property, other than (i) a merger or consolidation with a wholly-owned Subsidiary, (ii) a reincorporation of the Company in a different jurisdiction, or (iii) any other transaction in which there is no substantial change in the stockholders of the Company;

(c) Any merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation, or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation, or other reorganization;

(d) The sale, transfer, or other disposition of all or substantially all of the assets of the Company in one transaction or a series of transactions; or

(e) A change or series of related or unrelated changes in the composition of the Board, during any twenty-four (24) month period beginning on the first anniversary of the Effective Date, as a result of which fewer than fifty percent (50%) of the incumbent directors are directors who either (i) had been directors of the Company on the later of such first anniversary of the Effective Date or the date twenty-four (24) months prior to the date of the event that may constitute a Change of

Control (the "Original Directors") or (ii) were elected, or nominated for election, to the Board with the affirmative votes of a least a majority of the aggregate of the Original Directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved.

Notwithstanding the foregoing, the following transactions will not constitute a "Change of Control:" (i) any transaction the sole purpose of which is to change the state of incorporation of the Company or to create a holding company that will be owned in substantially the same proportions by te persons who held the Company's securities immediately before such transaction; or (ii) with respect to any Purchase Right that is subject to Section 409A of the Code and for which no exception applies, any transaction or event described above that does not also constitute a "change in control event" within the meaning of Section 409A of the Code.

2.6. *Code*. The Internal Revenue Code of 1986, as in effect on the Effective Date or as amended or superseded after the Effective Date, and any regulations and applicable rulings issued under the Code.

2.7. *Committee*. The committee to which the Board delegates responsibility for administering the Plan. Such committee may include individuals who are not members of the Board.

2.8. *Company*. Diamond Hill Investment Group, Inc., an Ohio corporation, and any successor to it.

2.9. *Designated Subsidiary*. Any Subsidiary that has been designated by the Committee as a Subsidiary whose Employees shall be eligible to participate in the Plan.

2.10. *Effective Date*. January 1, 2021, the date the Board designated on the Adoption Date as the date on which the Plan would first go into effect.

2.11. *Eligible Employee*. As of any Entry Date, any Employee who complies with Article 3 and other Plan provisions; provided, as of such Entry Date, the Employee (a) is not an Employee whose customary employment is for not more than five (5) months in any calendar year; or (b) does not own Stock possessing 5% or more of the total combined voting power or value of all classes of Stock of the Company or any Subsidiary.

2.12. *Employee*. Any person who, on an applicable Entry Date, is a common law employee of any Employer. A worker who is classified as other than a common law employee but who is subsequently reclassified as a common law employee of an Employer for any reason and on any basis will be treated as a common law employee from the first Entry Date that begins after the date of that determination and will not retroactively be reclassified as an Employee for any purpose of this Plan.

2.13. *Employer*. The Company and each Designated Subsidiary employing an Eligible Employee.

2.14. *Entry Date*. The first day of each Offering Period and the date that Purchase Rights are granted under the Plan for the ensuing Offering Period.

2.15. *Fair Market Value*. The value of one (1) share of Stock on any relevant date, determined under the following rules:

(a) If the Stock is traded on an exchange, the reported "closing price" on the relevant date, if it is a trading day, otherwise on the next trading day;

(b) If the Stock is traded over-the-counter with no reported closing price, the mean between the lowest bid and the highest asked prices on that quotation system on the relevant date if it is a trading day, otherwise on the next trading day; or

(c) If neither of the preceding apply, the fair market value as determined by the Committee in good faith.

2.16. *Offering Period*. The period during which payroll deductions will be accumulated in Plan Accounts to fund the purchase of shares of Stock. Each Offering Period will commence on such date as may be determined from time to time by the Committee. Each Offering Period will consist of one (1) calendar quarter, unless a different period is established by the Committee and announced to Eligible Employees before the beginning of the Offering Period.

2.17. *Participant*. Any Eligible Employee who complies with the conditions described in Article 3 for the current Offering Period.

2.18. *Plan*. The Diamond Hill Investment Group, Inc. Employee Stock Purchase Plan, as the same may be amended from time to time. This Plan is intended to comply with Code Sections 421 and 423.

2.19. *Plan Account*. The individual account established by the Committee for each Participant to which all amounts described in Section 3.1(a)(i) are credited until applied as described in Article 6.

2.20. *Purchase Date*. The last day of each Offering Period and the date on which shares of Stock are purchased in exchange for the Purchase Price (or the first trading day preceding the last day of the Offering Period, if such last day is not a trading day).

2.21. *Purchase Price*. The price established by the Committee for each Offering Period that each Participant must pay to purchase shares of Stock under this Plan but which may never be less than 85 percent of the Fair Market Value of a share of Stock on each Purchase Date.

2.22. *Purchase Right*. The right to purchase shares of Stock subject to the terms of the Plan.

2.23. *Stock*. A common share, without par value, issued by the Company.

2.24. *Stock Account*. The account established for each Participant to which the Company transfers shares of Stock acquired under the Plan.

2.25. *Subsidiary*. Any corporation, limited liability company, partnership or other form of unincorporated entity of which the Company owns, directly or indirectly, 50% or more of the total combined voting power of all classes of stock, if the entity is a corporation; or of the capital or profits interest, if the entity is a limited liability company, a partnership or another form of unincorporated entity.

2.26. *Termination*. Cessation of the employee-employer relationship between a Participant and each Employer for any reason. Also, a Participant will be treated as having Terminated on the date his or her employer is no longer an Employer.

ARTICLE 3
PARTICIPATION

3.1. *Enrollment*.

(a) Each Eligible Employee may become a Participant for any Offering Period beginning after the date he or she complies with each of the following conditions:

(i) Elects to participate by authorizing the Employer to withhold a portion of his or her base salary and/or incentive compensation. This authorization will be made under rules developed by the Committee within the following limits: each authorization (A) must be stated in whole dollars, (B) may not authorize or result in authorization of a deduction (I) less than $250.00 or such other amount specified by the Committee (which may never be less than $10.00 per pay period) or (II) more than the amount specified by the Committee (which may never exceed the limitation specified in Section 5.1 for each calendar year), (C) must be signed by the enrolling Eligible Employee and (D) must be delivered to the Committee within the period specified by the Committee.

(ii) Complies with any other rules established by the Committee.

(b) By enrolling in the Plan, each Participant will be deemed to have (i) agreed to the terms of the Plan and (ii) authorized the Employer to withhold from his or her base salary and/or incentive compensation (A) the amounts authorized in accordance with Section 3.1(a)(i) and (B) any taxes and other amounts due in connection with any transaction contemplated by the Plan.

3.2. *Duration of Election to Participate*.

Subject to the terms of the Plan:

(a) Participants' withholding authorizations will be implemented beginning with the first payroll period with a paycheck date in the Offering Period for which it is received by the Committee and will remain in effect until revoked or changed under the rules described in Section 3.2(b).

(b) A Participant who elects to participate in the Plan for any Offering Period by complying with the rules described in Section 3.1 may not change or revoke that election for that Offering Period. In addition, the Participant's election will remain in effect for each subsequent Offering Period until changed or revoked by the Participant by complying with the rules described in Section 3.1 as if the changed or revoked election were a new election. Any change to or revocation of an earlier election will be effective as of the first day of the first Offering Period beginning after the revised election is delivered to the Committee and will remain in effect until revoked or changed under the rules described in this Section 3.2.

3.3. *No Interest Paid*. No interest will be paid with respect to any amount credited to or held in any Plan Account.

ARTICLE 4
ADMINISTRATION

4.1. *Committee Duties*.

(a) The Committee is responsible for administering the Plan and has all powers appropriate and necessary to that purpose. Consistent with the Plan's objectives, the Committee may adopt, amend and rescind rules and regulations relating to the Plan, to the extent appropriate to protect the Company's interests and has complete discretion to make all other decisions necessary or advisable for the administration and interpretation of the Plan. Any action by the Committee will be final, binding and conclusive for all purposes and upon all persons. The Committee is granted all powers appropriate and necessary to administer the Plan.

(b) Without limiting the generality of the provisions of Section 4.1(a), consistent with the terms of the Plan, the Committee:

(i) May exercise all discretion granted to the Committee under the Plan;

(ii) Will determine whether to have an Offering Period, and, if so, the date on which such Offering Period is to commence and establish the number of shares of Stock that may be acquired during such Offering Period if the number available during any Offering Period is less than all remaining available shares determined under Section 5.2;

(iii) May develop and impose other terms and conditions the Committee believes are appropriate and necessary to implement the purposes of the Plan;

(iv) Will establish and maintain a Plan Account for each Participant which will be (A) credited with amounts described in Section 3.1(a)(i) and (B) debited with all amounts applied to purchase shares of Stock;

(v) Will establish a Stock Account for each Participant which will be credited with shares of Stock until released as provided in Article 7;

(vi) Will administer procedures through which Eligible Employees may enroll in the Plan;

(vii) Will disseminate information about the Plan to Eligible Employees; and

(viii) Will apply all Plan rules and procedures.

4.2. *Delegation of Ministerial Duties*. In its sole discretion, the Committee may delegate any ministerial duties associated with the Plan to any person (including employees) that the Committee deems appropriate other than those duties described in Section 4.1(b)(i), (ii) and (iii).

4.3. *General Limit on Committee*. Consistent with applicable law and Plan terms, the Plan will be administered in a manner that extends equal rights and privileges to all Participants.

ARTICLE 5
OFFERING

5.1. *Right to Purchase*. Subject to Sections 5.2 and 5.3 and Article 6, the number of shares of Stock that may be purchased during each Offering Period will be established by the Committee before the beginning of each Offering Period. Notwithstanding any provision contained herein, no Participant may be granted a Purchase Right which permits the Participant to purchase Stock under this Plan or any other stock purchase plan maintained by the Company or any Subsidiary to accrue at a rate which exceeds $25,000 of Fair Market Value of Stock (determined at the time that such Purchase Right is granted) for each calendar year in which such Purchase Right is outstanding at any time. This limitation shall be construed in accordance with the provisions of § 423(b)(8) of the Code.

5.2. *Number of Shares of Stock*. Subject to Section 5.3, the aggregate number of shares of Stock that may be purchased under the Plan is 100,000.

5.3. *Adjustment in Capitalization*. If, after the Effective Date, there is a Stock dividend or Stock split, recapitalization (including payment of an extraordinary dividend), merger, consolidation, combination, spin-off, distribution of assets to shareholders, exchange of shares, or other similar corporate change affecting Stock, the Committee will appropriately adjust (a) the number of Purchase Rights that may or will be issued, (b) the aggregate number of shares of Stock available under Section 5.2 or subject to outstanding Purchase Rights (as well as any share-based limits imposed under this Plan), (c) the respective Purchase Price, number of shares and other limitations applicable to outstanding or subsequently issued Purchase Rights and (d) any other factors, limits or terms affecting any outstanding or subsequently issued Purchase Rights.

5.4. *Source of Stock*. Shares of Stock to be purchased under the Plan may, in the Board's discretion, be authorized but unissued shares not reserved for any other purpose or treasury shares previously outstanding and reacquired by the Company.

ARTICLE 6
PURCHASE OF SHARES

6.1. *Purchase*.

(a) Throughout each Offering Period, the Employer will withhold from each Participant's base salary and/or incentive compensation the amount the Participant has authorized in accordance with Section 3.1(a)(i). These amounts will be held in the Participant's Plan Account until the Purchase Date.

(b) As of each Purchase Date and subject to the Plan's terms and limits, the value of each Participant's Plan Account will be divided by the Purchase Price established for that Offering Period and each Participant will be deemed to have purchased the number of whole shares of Stock produced by dividing the value of the Participant's Plan Account as of the Purchase Date by the Purchase Price. Simultaneously, the Participant's Plan Account will be charged for the amount of the purchase. Any remaining amounts in the Participant's Plan Account that are insufficient to purchase a whole share of Stock will remain in the Participant's Plan Account and will be available to purchase whole shares of Stock during future Offering Periods. In the event that an amount remains in a Participant's Plan Account because such Participant has purchased shares of Stock up to the maximum amount permitted under Section 5.1, such remaining amount will be refunded to the Participant within ten (10) business days following the last day of the applicable Offering Period.

6.2. *Remaining Available Shares*.

(a) If application of the procedures described in Section 6.1 would result in the purchase of a number of shares of Stock larger than the number of shares of Stock offered during that Offering Period, the Committee will allocate available shares of Stock among Participants and any cash remaining in Participants' Plan Accounts will be credited to the next Offering Period and, subject to the terms of the Plan, applied along with additional amounts credited to that Offering Period to purchase shares of Stock during that Offering Period and at the Purchase Price established for that Offering Period.

(b) If application of the procedures described in Section 6.1 would result in the purchase of a number of shares of Stock less than the number of shares of Stock made available for purchase for any Offering Period, the excess shares of Stock will be available for purchase during any subsequent Offering Period.

6.3. *Delivery of Shares; Participants' Stock Accounts*.

(a) At or as promptly as practicable after the end of each Offering Period, the Company will deliver, or cause to be delivered, the shares of Stock purchased by a Participant during that Offering Period to the transfer agent for the Company's Stock for deposit into that Participant's Stock Account for the Plan.

(b) Cash dividends on any shares of Stock credited to a Participant's Stock Account will be paid in cash to the Participant.

(c) Each Participant's Stock Account will be credited with any shares of Stock distributed as a dividend or distribution in respect of shares of Stock credited to that Participant's Stock Account or in connection with a split of Stock credited to that Participant's Stock Account.

(d) As soon as reasonably practicable after receipt, the transfer agent will sell any noncash dividends (other than securities of the Company) received with respect to any Stock held in a Participant's Stock Account and pay the proceeds of that sale to the Participant in the manner described in Section 6.3(b).

(e) Each Participant will be entitled to vote the number of shares of Stock credited to his or her Stock Account on any matter as to which the approval of the Company's shareholders is sought.

ARTICLE 7
TERMINATION/RELEASE FROM STOCK ACCOUNTS

7.1. *Effect of Termination on Election to Participate*.

A Participant who Terminates will be deemed to have withdrawn from the Plan. Any cash amounts credited to his or her Plan Account for the Offering Period during which the Termination occurs will be refunded to the Participant (or to the Participant's Beneficiary, in the event of the Participant's death) within 30 days following his or her Termination. No shares of Stock will be purchased for that Participant in any Offering Period that ends after such Participant's Termination.

7.2. *Release from Stock Accounts*.

(a) Subject to Article 8, during the period ending on the date that is twelve (12) full calendar months after the date on which the Stock was purchased and credited to a Participant's Stock Account, the Participant may not transfer the Stock held in his or her Stock Account. At the end of the period described in the immediately preceding sentence, the shares of Stock held in a Participant's Stock Account will be released from the Stock Account and treated in the manner elected by the Participant in accordance with the rules prescribed by the Committee and the transfer agent.

(b) In the event of a Participant's death, the provisions of Section 7.2(a) regarding the treatment of Stock released from the Participant's Stock Account shall immediately apply to the Participant's Beneficiary (i.e., the limitation on transferability shall cease to apply upon the Participant's death).

ARTICLE 8
EFFECT OF CHANGE IN CONTROL

If the Company undergoes a Change in Control, all shares of Stock held in each Participant's Stock Account will be made available to the Participant under procedures developed by the transfer agent and the Committee.

ARTICLE 9
AMENDMENT, MODIFICATION AND TERMINATION OF PLAN

9.1. *Amendment, Modification, Termination of Plan*. The Plan will automatically terminate after all available shares of Stock have been sold. Also, the Board may terminate, suspend or amend the Plan at any time without shareholder approval except to the extent that shareholder approval is required to satisfy applicable requirements imposed by (a) Rule 16b-3 under the Act, or any successor rule or regulation, (b) applicable requirements of Section 423 of the Code or (c) any securities exchange, market or other quotation system on or through on which the Company's securities are listed or traded. Also, no Plan amendment may (d) cause the Plan to fail to meet requirements imposed by Rule 16b-3 or (e) without the consent of the affected Participant adversely affect any Purchase Right issued before the amendment, modification or termination.

9.2. *Effect of Plan Termination*.

(a) If the Plan is terminated effective on a day other than the last day of any Offering Period, the Offering Period during which the Plan is terminated also will end on the same day. Any cash balances held in Plan Accounts when the Plan is terminated will be refunded to the Participant for whom the Plan Account was established, and no shares of Stock will be sold through the Plan for that Offering Period. All shares of Stock held in Stock Accounts will be released following the procedures described in Section 7.2.

(b) If the Plan is terminated as of the last day of any Offering Period, the Committee will apply the terms of the Plan through the end of that Offering Period. However, no further shares of Stock will be offered under the Plan for any subsequent Offering Period and all shares of Stock then held in Stock Accounts will be released following the procedures described in Section 7.2.

ARTICLE 10
MISCELLANEOUS

10.1. *Restriction on Transfers*. Except as provided in Section 10.2, no right or benefit under the Plan may be transferred, assigned, alienated, pledged or otherwise disposed of in any way by a Participant. All rights and benefits under the Plan may be exercised during a Participant's lifetime only by the Participant.

10.2. *Beneficiary*. Each Participant may designate a Beneficiary or Beneficiaries pursuant to procedures established by the Committee. If a Participant dies and has failed to so designate a Beneficiary (or the designated Beneficiary has pre-deceased the Participant), the deceased Participant's Beneficiary will be his or her estate.

10.3. *No Guarantee of Employment*. Nothing in the Plan may be construed as:

(a) Interfering with or limiting the right of any Employer to terminate any Participant's employment at any time; or

(b) Conferring on any Participant or Employee any right to continue as an Employee.

Further, no Participant will be entitled by reason of participation in the Plan to any compensation, in connection with termination of employment, for loss of any right or benefit or prospective right or benefit which the Participant might otherwise have enjoyed by way of damages for breach of contract.

10.4. *No Promise of Future Awards*. The right to purchase shares of Stock under the Plan is being made available on a voluntary and discretionary basis and the Purchase Right with respect to each individual Offering Period is being offered on a one-time basis and does not constitute a commitment to make any Purchase Right available in the future. The right to purchase shares of Stock hereunder will not be considered salary or other compensation for purposes of any severance pay or similar allowance, except as otherwise required by applicable law.

10.5. *Tax Requirements and Notification*. Each Participant is solely responsible for satisfying any applicable local, state, federal and foreign tax requirements associated with any taxable amount received from or associated with his or her participation in the Plan. Each Employer will withhold required taxes in the same manner and for the same taxing jurisdiction as the Employer withholds taxes from Participants' other compensation.

10.6. *Indemnification*. Each individual who is or was a member of the Committee or of the Board will be indemnified and held harmless by the Company against and from any loss, cost, liability or expense (including, without limitation, attorneys' fees) that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be made a party or in which he or she may be involved by reason of any action taken or failure to take action under the Plan as a Committee or Board member and against and from any and all amounts paid, with the Company's approval, by him or her in settlement of any matter related to or arising from the Plan as a Committee or Board member or paid by him or her in satisfaction of any judgment in any action, suit or proceeding relating to or arising from the Plan against him or her as a Committee or Board member, but only if he or she gives the Company an opportunity, at the Company's own expense, to handle and defend the matter before he or she undertakes to handle and defend it in his or her own behalf. The right of indemnification described in this Section 10.6 is not exclusive and is independent of any other rights of indemnification to which the individual may be entitled under the Company's organizational documents, by contract, as a matter of law or otherwise.

10.7. *No Limitation on Compensation*. Nothing in the Plan is to be construed to limit the right of the Company to establish other plans or to pay compensation to its employees or directors, or those of its Subsidiaries, in cash or property, in a manner not expressly authorized under the Plan.

10.8. *Requirements of Law*. The availability of Purchase Rights and the issuance of shares of Stock will be subject to all applicable laws, rules and regulations and to all required approvals of any governmental agencies or national securities exchange, market or other quotation system. Also, no shares of Stock will be sold under the Plan unless the Company is satisfied that the issuance of those shares of Stock will comply with applicable federal and state securities laws. Certificates for shares of Stock delivered under the Plan may be subject to any stock transfer orders and other restrictions that the Committee believes to be advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange or other recognized market or quotation system upon which the Stock is then listed or traded, or any other applicable federal or state securities law. The Committee may cause a legend or legends to be placed on any certificates issued under the Plan to make appropriate reference to restrictions within the scope of this Section 10.8.

10.9. *Uncertificated Shares of Stock*. To the extent that the Plan provides for the issuance of certificates to reflect the delivery of Stock, the delivery of Stock may be effected on a noncertificated basis, to the extent not prohibited by applicable law or the applicable rules of any securities exchange upon which shares of Stock are traded.

10.10 *Expenses*. Except as otherwise provided in this Section 10.10 and the Plan, costs and expenses incurred in the administration of the Plan and maintenance of Plan Accounts will be paid by the Company. Under no circumstance will the Company pay any brokerage fees and commissions arising in connection with the sale of shares of Stock acquired under the Plan by any Participant.

10.11. *Governing Law*. The Plan and all related elections, authorizations or agreements will be construed in accordance with and governed by the laws (other than laws governing conflicts of laws) of the United States and of the State of Ohio.

10.12. *No Impact on Benefits*. The right to purchase shares of Stock under this Plan is an incentive designed to promote the objectives described in Article 1 and is not to be treated as compensation for purposes of calculating a Participant's rights under any employee benefit plan.

10.13. *Data Privacy*. Information about the Participant and the Participant's participation in the Plan may be collected, recorded and held, used and disclosed for any purpose related to the administration of the Plan. The Participant understands that such processing of this information may need to be carried out by the Company and its Subsidiaries and by third-party administrators whether such persons are located within the Participant's country or elsewhere, including the United States of America. The Participant consents to the processing of information relating to the Participant and the Participant's participation in the Plan in any one or more of the ways referred to above.

10.14. *Effective Date*. The Plan was effective as of the Effective Date, subject to the approval thereof by the shareholders of the Company at the 2021 Annual Meeting of Shareholders.

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, 2020

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

DIAMOND HILL INVESTMENT GROUP, INC.

(Exact name of registrant as specified in its charter)

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

325 John H. McConnell Blvd, Suite 200, Columbus, Ohio 43215
(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
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	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.☐

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 on the NASDAQ Global Select Market was $353,257,260, based on the closing price of $113.67 on June 30, 2020. For these purposes only, calculation of holdings by non-affiliates is based upon the assumption, that the registrant's executive officers and directors are affiliates.

The number of shares outstanding of the issuer's common stock, as of February 25, 2021, is 3,160,419 shares.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement for the 2021 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, 2020
Index

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 “1933 Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such statements are provided under the “safe harbor” protection of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are 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,” and 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; (xviii) the effects of the COVID-19 pandemic and the actions taken in connection therewith; (xix) political uncertainty caused by, among other things, political parties, economic nationalist sentiments, tensions surrounding the current socioeconomic landscape, 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., an Ohio corporation (“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 the Diamond Hill Funds (each a “Fund”, and collectively, the “Funds”), sub-advised mutual funds, and separately managed accounts.

DHCM is a client-centric organization committed to a set of shared investment principles and core values intended to enable excellent investment outcomes for clients. By committing to valuation disciplined active portfolio management, fundamental bottom-up research, and a long-term business owner mindset, DHCM has created a suite of investment strategies designed for long-term strategic allocations from institutionally-oriented investors. DHCM’s core values of curiosity, ownership, trust, and respect create an environment where investment professionals can focus on results and all teammates focus on the overall client experience. The combination of these investment principles and core values create an aligned boutique model ensuring associates succeed when clients succeed. This alignment with clients is emphasized through: (i) personal investment by Diamond Hill employees in the strategies managed, (ii) a fee philosophy focused on a fair sharing of the economics among clients, employees, and shareholders, (iii) a strict adherence to capacity discipline ensuring the ability to add value for existing clients, and (iv) compensation driven by the value created.

Our primary objective is to fulfill our fiduciary duty to our clients. Our secondary objective is to grow our intrinsic value to achieve an adequate long-term return for our shareholders.

Investment Advisory Activities

Investment Advisory Fees

Our 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 that allow us to earn performance-based fees if investment returns exceed targeted amounts during a measurement period.

Assets Under Management

The following tables show AUM by product and investment objective, as well as net client cash flows, for each of the past five years ended December 31, 2020:

	Assets Under Management As of December 31,				
(in millions)	2020	2019	2018	2017	2016
Proprietary funds	$ 17,615	$ 16,148	$ 13,440	$ 15,974	$ 13,618
Sub-advised funds	3,185	2,029	1,358	1,518	1,445
Separately managed accounts	5,611	5,222	4,310	4,825	4,318
Total AUM	$ 26,411	$ 23,399	$ 19,108	$ 22,317	$ 19,381

	Assets Under Management by Investment Strategy As of December 31,				
(in millions)	2020	2019	2018	2017	2016
Small Cap	$ 556	$ 795	$ 1,048	$ 1,525	$ 1,843
Small-Mid Cap	2,810	3,243	2,770	3,528	3,329
Mid Cap	992	569	143	130	59
Large Cap	15,075	12,316	9,611	10,864	8,494
Large Cap Concentrated	27	28	26	3	3
All Cap Select	446	528	432	444	402
Long-Short	2,056	3,605	3,767	4,980	4,613
Global/International	33	35	18	6	2
Total Equity	21,995	21,119	17,815	21,480	18,745
Short Duration Securitized Bond	1,132	809	579	313	197
Core Fixed Income	541	300	55	44	40
Long Duration Treasury	62	52	52	—	—
Corporate Credit	2,020	1,147	757	668	549
High Yield	724	135	54	31	32
Total Fixed Income	4,479	2,443	1,497	1,056	818
Total Equity and Fixed Income	26,474	23,562	19,312	22,536	19,563
(Less: Investments in affiliated funds)[a]	(63)	(163)	(204)	(219)	(182)
Total AUM	$ 26,411	$ 23,399	$ 19,108	$ 22,317	$ 19,381

(a) Certain of the Funds own shares of the Diamond Hill Short Duration Securitized Bond 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, 2020	2019	2018	2017	2016
AUM at beginning of the year	$ 23,399	$ 19,108	$ 22,317	$ 19,381	$ 16,841
Net cash inflows (outflows)					
proprietary funds	879	(499)	(978)	843	548
sub-advised funds	713	216	(25)	(164)	639
separately managed accounts	(63)	(394)	(99)	(254)	(1,023)
	1,529	(677)	(1,102)	425	164
Net market appreciation/(depreciation) and income	1,483	4,968	(2,107)	2,511	2,376
Increase (decrease) during the year	3,012	4,291	(3,209)	2,936	2,540
AUM at end of the year	$ 26,411	$ 23,399	$ 19,108	$ 22,317	$ 19,381

Capacity

Our ability to retain and grow our AUM has been, and will be, primarily driven by delivering attractive long-term investment results, which requires strict adherence to capacity discipline. In the event that we determine that the size of a strategy could begin to hinder our ability to add value for our clients based on the strategy's investment return goals, we will close that strategy to new clients. Our commitment to capacity discipline inherently impacts our ability to grow our AUM. Investment results will always be prioritized over asset accumulation. As of December 31, 2020, our Small-Mid Cap strategy remains closed to new investors. We anticipate closing our Large Cap strategy to most new investors by the end of the first quarter of 2021.

Total capacity is estimated to be $30 – 40 billion for our existing domestic equity strategies, at least $15 billion for our International and Global strategies, and at least $40 billion for our existing fixed income strategies. Total firm capacity is not the sum of the individual strategy capacities as it is affected by overlap of investment opportunity across strategies. Firm level capacity increases with the development of new products or strategies.

Growth Strategy

As a deliberately capacity constrained organization, growth is intentional and centers first and foremost on delivering an investment and client experience that enables investors to have better outcomes over the long term. Our core values and aligned boutique model encourage development of strategies and vehicles that are designed to meet clients' objectives and embody our shared investment principles.

There is ample opportunity for growth within more recently developed strategies. In 2021, the International, Core Bond, and Short Duration Securitized Bond strategies will reach their five-year track records. All three strategies have shown the ability to exceed their investment objectives and serve important strategic roles in client portfolios.

There are three natural extensions of our current strategies that we will expand on in early 2021. We will extend our Large Cap Concentrated strategy to be available as a new fund in our Diamond Hill Funds lineup. We will launch a limited partnership focused on micro-cap companies allowing us to leverage our experience evaluating small publicly traded business. We are also working on the expansion of our fixed income separate account offerings with additional securitized bond strategies. We continue to develop and identify new long-term oriented investment offerings that meet client objectives and align with our investment principles.

We provide investment advisory services primarily to institutions and through intermediaries who utilize institutional decision-making processes. We look to attract like-minded, long-term focused clients across all our offerings. We have dedicated resources to developing distribution technology and content led marketing efforts. These initiatives supplement and make more efficient the business development and relationship management efforts. We believe the combination of all these efforts will lead to a deeper understanding of our investment strategies and ultimately longer holding periods for investors.

Distribution Channels

Our investment advisory services are distributed through multiple channels. Below is a summary of AUM by distribution channel for each of the five years ended December 31, 2020:

	AUM by Distribution Channel As of December 31,				
(in millions)	2020	2019	2018	2017	2016
Proprietary funds:					
Registered investment adviser	$ 4,315	$ 3,603	$ 3,243	$ 4,010	$ 3,508
Independent broker-dealer	4,274	3,563	2,900	3,581	2,922
Wirehouse	3,529	3,026	2,319	2,660	2,011
Bank Trust	2,546	2,907	2,672	3,456	3,175
Defined contribution	2,716	2,723	1,904	1,840	1,535
Other	235	326	402	427	467
Total proprietary funds	17,615	16,148	13,440	15,974	13,618
Sub-advised funds	3,185	2,029	1,358	1,518	1,445
Separately managed accounts:					
Institutional consultant	2,504	2,397	2,122	2,357	2,074
Financial intermediary	2,371	1,777	1,506	1,691	1,358
Direct	736	1,048	682	777	886
Total separately managed accounts	5,611	5,222	4,310	4,825	4,318
Total AUM	$ 26,411	$ 23,399	$ 19,108	$ 22,317	$ 19,381

Fund Administration Activities

We provide 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 investment management industry is intense, and 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, offer a broader range of investment products, and have more dedicated resources for business development and marketing.

Regulation

Our firm and 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 regulatory bodies may impose, include civil and criminal liability, the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of investment adviser, broker-dealer, and other registrations, censures, and fines.

DHCM is registered with the SEC under the 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 Funds are registered with the SEC under the Investment Company Act of 1940, as amended (the "1940 Act"), 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 of 1986, as amended, 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.

Our trading activities for client accounts are regulated by the SEC under the Exchange Act, which includes regulations governing trading on inside information, market manipulation, and a broad number of trading and market regulation requirements in the United States (*e.g.*, volume limitations and reporting obligations).

The preceding descriptions of the regulatory and statutory provisions applicable to us are not exhaustive or 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

We are highly dependent on our contractual relationships with the Funds. If any of our advisory or administration agreements with the Funds were terminated or not renewed, or were amended or modified to reduce fees, we would be materially and adversely affected. We generated approximately 75%, 77%, and 79% of our 2020, 2019, and 2018 revenues, respectively, from our advisory and administrative contracts with the Funds. We believe that 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 us. Please see Item 1A for risk factors regarding this relationship.

Human Capital

Our people are our greatest asset, and each role within our firm contributes to our mission to deliver outstanding client outcomes. As our greatest asset, we diligently care for and invest in our employees. We are a small firm with an important purpose, and we rely on each other and our positive culture to create the environment which allows us to deliver on our vision.

Workforce Data

Attracting, developing, and retaining talented employees is an integral aspect of our human capital strategy and critical to our success. We depend on highly skilled personnel, both investment professionals and business professionals, many of whom have specialized expertise and extensive experience in the investment management industry. As of December 31, 2020, we employed 126 full-time equivalent employees. As of December 31, 2019, the number of full-time equivalent employees was 129.

Our average employee tenure is approximately 6 years, and more than 20% of our employees have been employed by us for more than ten years. Our employee turnover rate continues to be well below industry average. We believe these realities reflect employees' genuine commitment to our clients, our business, and each other, as well as our firm's value proposition.

Competitive Pay and Benefits

Since our founding, aligning our interests directly with the clients we serve has been imperative. Inherent in this alignment is a passion for excellence enabling us to exceed client expectations. To achieve this level of excellence, it is important that consistent with our compensation philosophy, we attract, retain, and motivate associates who embody our values, act like owners, and advocate for client outcomes. We align our employees' compensation with our overall performance, as well as team and individual results.

We know there are many places exceptional talent can choose to work, which is why we aim to take exceptional care of our employees throughout their career. We believe that their well-being and financial security will enable them to do their best work and advocate for client outcomes. Some of our most competitive package components are:

- Competitive annual compensation comprised of a base salary, discretionary cash incentive compensation and, for certain roles, a long-term equity incentive;
- An equity grant in the first year of joining our firm to instill an ownership mindset;
- A market-leading 401k match program; and
- Employees are also eligible for health, dental and vision insurance, health savings accounts, telemedicine, flexible time off, paid and unpaid leave, life and disability insurance, paid parental leave, fertility benefits, a wellness program with subsidized gym membership, professional development opportunities including reimbursement for job-related professional designations such as the CFA program, and paid parking.

Our Culture

The way our employees embody our core values creates an exceptional corporate culture that differentiates our business from other firms.

Our culture revolves around the fact that Diamond Hill is a fiduciary first and foremost. Our primary focus is serving our clients and this mindset permeates our organization. We intentionally staff our team to ensure a high level of service to our clients, and we believe our client-centric approach is difficult for competitors to replicate. Our long-term, value-disciplined investment philosophy and process are foundational to who we are as an organization 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 focus their efforts solely on finding attractive investment opportunities for clients.

Our employees also invest in our strategies alongside our clients. Our portfolio managers have significant personal investments in the strategies they manage. In addition, DHCM's Code of Ethics states that 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 limitation ensures we continue to focus on finding the best opportunities for client portfolios while avoiding the conflicts of interest inherent in managing personal accounts.

To further ensure our portfolio managers consistently remain focused on achieving the best long-term outcomes possible 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 that 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 approach ensures that our portfolio managers are motivated to make sound long-term investment decisions, rather than on achieving a particular short-term return goal.

Diversity, Equity, and Inclusion

We view diversity, equity, and inclusion ("DEI") as essential parts of our business and operating model to ensure sustainability. Diversity, equity, and inclusion are embedded in our policies, practices, strategic initiatives, and are linked to our firm's core values.

We believe our goal of being an exceptional active investment boutique that our clients trust to deliver excellent long-term investment outcomes is better served by the engagement and encouragement of varied perspectives in decision making as is inherent in a diverse team.

With that vision in mind, in 2020, we committed to several DEI initiatives and measures to ensure our efforts are sustained and positive changes occur within our firm, in the industry, and within our community. More specifically, in 2020:

- Along with 750+ other Columbus, Ohio-based business leaders, we signed a letter supporting a Columbus City Council resolution declaring racism a public health issue;
- We created an employee-led, DEI advisory group to help guide and prioritize our DEI efforts and ensure our ideas become actions;
- Approximately 30% of employees from across the firm have volunteered to be part of our DEI efforts;
- We partnered with third parties to increase the number of diverse candidates applying for our open positions and to ensure that we consider a diverse pool of candidates for our full-time and part-time openings and within our intern program;

- We partnered with organizations that assist people of color and women to achieve inclusion in the financial services industry and support financial and investment literacy;
- We are working to ensure that we are conducting business with vendors who embrace our commitment to DEI;
- We created a DEI resource group to raise awareness about a variety of topics and foster understanding; and
- At the community level, we pledged $1 million over the next five years to organizations that support anti-racism and DEI efforts.

We believe we should all be held to a higher standard and we pledge our commitment to do so. As of December 31, 2020, females represent 42% of our Board of Directors, 66% of our management team, and 30% of our employees. As of December 31, 2020, minorities represent approximately 14% of our workforce.

Health and Well-Being

Conducting business in the COVID-19 era has heightened the importance of protecting employee health and well-being and has inspired new ways of engaging with a physically distanced workforce. We more acutely recognize the importance of being supportive, open, and flexible in order to retain our great people.

We recognize that individual circumstances are unique and evolving, and that flexible working is a part of our future. We are committed to offering flexibility to our employees to ensure their well-being, safety, and productivity. We support managers and employees by providing training and mental health support including confidential counseling services, and are continuously exploring new ways of collaborating.

Employee Development / Training

We offer both formal and informal training programs to foster and retain talent. The challenges of 2020 reinforced our belief that continuous learning is vital, far beyond our typical functional scope. Despite the majority of our employees being based in Columbus, Ohio and accustomed to working in the office with access to desktops and desk phones, the COVID-19 pandemic required our business to adapt quickly and seamlessly to new technologies, new hardware and software, and to learn various collaboration tools. In 2020, we also offered LinkedIn Learning licenses to supplement internal and external training.

SEC Filings

We maintain 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 SEC's website at http://www.sec.gov free of charge.

ITEM 1A. Risk Factors

Our future results of operations, financial condition, liquidity, and capital resources, as well as the market price of our common stock, are subject to various risks, including those risks mentioned below and those risks 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, liquidity, capital resources and the value of our common stock. Please see "Forward Looking Statements" within Part I, Item 1, of this Annual Report on Form 10-K.

Business Risks

Poor investment results or adverse reviews of our products could affect our ability to attract new clients or reduce our AUM, 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.

Investment strategies are assessed and rated by independent third parties, including rating agencies, industry analysts, and publications. Investors can be influenced by such ratings. If a strategy receives an adverse report, it could negatively influence 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 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 investment strategies 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 an investment strategy, or we believe that it is necessary in order to continue to produce attractive returns from an investment strategy, we will consider closing the investment strategy to new investors. As of December 31, 2020, we have one investment strategy closed to new investors. If we misjudge the point at which it would be optimal to close an investment strategy, the investment results of the strategy could be negatively impacted.

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

Our investment products compete against investment products and services from:

- Asset management firms;
- Mutual fund companies;
- Commercial banks and thrift institutions;
- Insurance companies;
- Exchange traded funds;
- Private funds, including hedge funds and private equity funds; and
- Brokerage and investment banking firms.

Many of our competitors have substantially greater resources 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 broader array of products and distribution channels, which makes it more difficult for us to compete. 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 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 could 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 our revenues are based on advisory and administrative agreements with the Funds that are subject to termination without cause and on short notice.

We are highly dependent on our contractual relationships with the Funds. If our advisory or administration agreements with the Funds were terminated or not renewed, or were amended or modified to reduce fees, we would be materially and adversely affected. Generally, these agreements are terminable by either party upon 60 days' prior 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. These agreements automatically terminate in the event of their assignment by either us or the Funds. We generated approximately 75%, 77%, and 79% of our 2020, 2019, and 2018 revenues, respectively, from our advisory and administrative contracts with the Funds, including 26%, 17%, and 11% from the advisory contracts with the Diamond Hill Large Cap Fund, the Diamond Hill Long-Short Fund, and the Diamond Hill Small-Mid Cap Fund, respectively, during 2020. The loss of any of the Diamond Hill Large Cap Fund, the Diamond Hill Long-Short Fund, or the Diamond Hill Small-Mid Cap Fund contracts would have a material adverse effect on us. We believe that 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.

The COVID-19 pandemic and other possible similar pandemics or outbreaks could have a material adverse effect on our business, financial position, results of operations, and cash flows.

COVID-19 has resulted in temporary, and sometimes prolonged, closures of many corporate offices, retail stores, manufacturing facilities, and factories around the world. In addition, as COVID-19 continues to spread across the globe, supply chains worldwide have been interrupted, slowed, or rendered inoperable, and an increasing number of individuals have and may continue to become ill, quarantined, or otherwise unable to work and/or travel due to health reasons or governmental restrictions. Governmental mandates to control the outbreak may require additional forced shutdowns and limit the re-opening of various business facilities for extended or indefinite periods. COVID-19, and the various governmental, industry, and consumer actions related to the containment thereof, are having, and could continue to have, negative effects on our business and risk exposure. These effects include, without limitation, potential significant financial market volatility, decreases in the demand for our investment products, changes in consumer behavior and preferences, limitations on our employees' ability to work and travel, potential financial and operational difficulties of vendors and suppliers, significant changes in economic or political conditions, and financial market declines or recessions that could generally negatively affect the level of our AUM and consequently our revenue, investment income (loss), and net income.

The global effect of the COVID-19 pandemic continues to evolve, and it is uncertain what the effect of various legislative and other responses that have been taken, and that may be taken in the future in the United States and other countries, will have on the economy, financial markets, international trade, our industries, our businesses, and the businesses of our clients and vendors. Many countries, including the United States, have reacted to both the initial outbreak and subsequent outbreaks by instituting quarantines and restrictions on travel to and from actual and potentially affected areas, and the outbreak could have a continued adverse effect on economic and market conditions. The future effect of the COVID-19 pandemic on global markets is difficult to predict, and it is uncertain the extent to which the COVID-19 pandemic may negatively affect our operating results or disrupt the duration of any potential business. The emergence of new variants of the virus and delay or difficulties in administering vaccines could continue to cause uncertainty. Any potential effect on our business and results of operations will depend to a large extent on future developments and new information that may emerge regarding the duration and severity of the COVID-19 pandemic and the actions taken by authorities and other entities to contain the spread of the virus, all of which are beyond our control.

In addition, the COVID-19 pandemic has significantly affected the way we operate. While we have in place business continuity plans that address the impact of the COVID-19 pandemic on our personnel, facilities, and technologies that enable our personnel to work effectively from home, no assurance can be given that the steps we have taken will continue to be effective or appropriate. Although our employees have been able to continue conducting business while working remotely for an extended period of time, operational challenges may arise in the future, which may reduce our organizational efficiency or effectiveness, and increase operational, compliance, and cybersecurity risks. In addition, because most of our employees have not previously worked remotely for such an extended period of time, we are unsure of the impact that the remote work environment and lack of in-person meetings with colleagues, clients, and business partners will have on the growth of our business and the results of our operations. Many of our key service providers also have transitioned to working remotely for an extended period of time. If we or they were to experience material disruptions in the ability of our or their employees to work remotely (*e.g.,* from illness due to the COVID-19 pandemic or disruption in internet-based communication systems and networks), our ability to operate our business could be materially adversely disrupted. Any such disruptions could have a material adverse impact on our results of operations, cash flows, financial condition, and/or reputation.

Moreover, our future success and profitability substantially depend on the management skills of our executive officers and directors, many of whom have held officer and director positions with us for many years. The unanticipated loss or unavailability of key employees due to COVID-19 or any similar pandemic could harm our ability to operate our business or execute our business strategy. We may not be successful in finding and integrating suitable successors in the event of key employee loss or unavailability.

Even after the COVID-19 pandemic subsides, local and foreign economies will likely require time to recover, the length of which is unknown and during which the United States or other countries may experience a recession. Our business could be materially and adversely affected by any such recession.

To the extent the effects of COVID-19 adversely impact our business, financial condition, liquidity, capital resources, or results of operations, it may also have the effect of heightening many of the other risks described in this section.

Operational Risks

Unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of our computer or other systems or otherwise, 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 cyberattacks 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.

Cybersecurity incidents can involve, among other things: (i) deliberate attacks designed to corrupt our information systems and make them unusable by us to operate our business; (ii) theft of information used by the perpetrators for financial and other gain; or (iii) inadvertent releases of information by employees or third parties with whom we do business.

Cyberattacks that corrupt our information systems and make them unusable could impair our ability to trade securities in our clients' accounts. Corruption of the systems of our third-party vendors could impact us 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 type and nature of the information (*e.g.*, proprietary information about our business or personal information about clients or employees), the results could be multiple and materially harmful to us, including the following:

- 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 have been 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 cyberattack and to make changes to our systems to reduce future cyber threats. Those changes could include, among other things, obtaining additional technologies as well as employing additional personnel and training employees; and

- The interruption of our business or theft of proprietary information could harm our ability to compete.

All of the above potential impacts of a cybersecurity incident could have a material adverse effect on our business, financial condition, and results of operations.

<u>We may not be able to adapt to technological change.</u>

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 implement effectively 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.

<u>Operational risks may disrupt our business, result in losses, or limit our growth.</u>

We are dependent on the capacity and reliability of the communications, information and technology systems supporting our operations, whether developed, owned, or operated internally by us 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 such systems, or compromised systems due to cyberattack, could result in a disruption of our business, liability to clients, regulatory intervention, or reputational damage, and thus, adversely affect our business.

Negative public opinion can result from our actual or alleged conduct in any number of activities, including trading practices, corporate governance and acquisitions, social media and other marketing activities and from actions taken by governmental regulators and community organizations in response to any of the foregoing. Negative public opinion could adversely affect our ability to attract and maintain clients, could expose us to potential litigation or regulatory action, and could have a material adverse effect on our stock price or result in heightened volatility.

<u>Trading in our common shares is limited, which may adversely affect the time and the price at which you can sell your shares.</u>

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 relatively inactive. The spread between the bid and the asked prices is often wide. As a result, shareholders may not be able to sell their 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 of our directors and officers, 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.

Industry, Market, and Economic Risks

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

The 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, whether in the United States or 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 approach may underperform other investment approaches during certain market conditions.

Our investment strategies are best suited for investors with long-term investment time horizons. Our investment strategies may not perform well during certain periods of time. Additionally, we could have common positions and industry concentrations across our strategies at the same time. As such, factors leading to underperformance may impact multiple strategies simultaneously.

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 investments that we sponsor. 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.

Regulatory Risks

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 assurances, however, that we will accurately predict the outcomes of audits, and the actual outcomes of these audits could be unfavorable.

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 Advisers Act, the 1940 Act, the 1933 Act, the Exchange Act, the Sarbanes-Oxley Act of 2002, the U.S. PATRIOT Act of 2001, and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. 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 which could negatively affect our financial condition and results of operations, as well as divert management's attention from our operations.

General Risk Factors

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

We lease office space and conduct our general operations at one location, the address of which is 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215.

We do not own any real estate or interests in real estate.

ITEM 3. Legal Proceedings

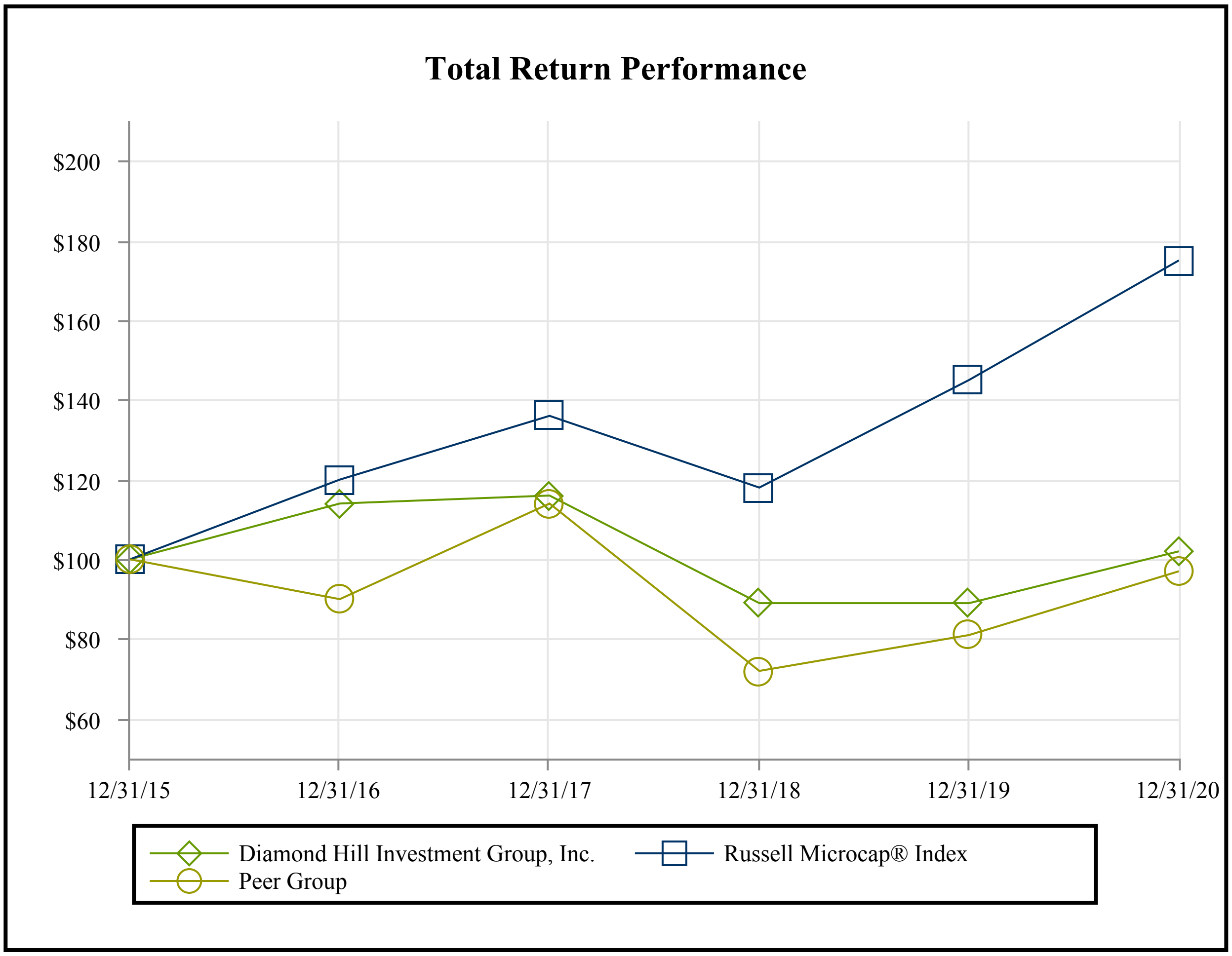
There are currently no matters pending that we believe could have a material adverse effect on our consolidated financial statements.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Market for Registrant's Common Equity, Related Shareholder 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, 2020. The graph assumes that the value of the investment in our common shares and each index was $100 on December 31, 2015. 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.



	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	Cumulative 5 Year Total Return
Diamond Hill Investment Group, Inc.	$100	$114	$116	$89	$89	$102	2 %
Russell Microcap® Index	$100	$120	$136	$118	$145	$175	75 %
Peer Group*	$100	$90	$114	$72	$81	$97	(3)%

* 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., 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.

Our common shares trade on the NASDAQ Global Select Market under the ticker symbol DHIL. The following table sets forth the high and low daily close prices during each quarter of 2020 and 2019:

	2020			2019		
	High Price	Low Price	Dividend Per Share	High Price	Low Price	Dividend Per Share
Quarter ended:						
March 31	$ 144.40	$ 81.70	$ —	$ 158.74	$ 133.52	$ —
June 30	$ 122.13	$ 86.00	$ —	$ 148.30	$ 137.73	$ —
September 30	$ 128.08	$ 111.80	$ —	$ 142.80	$ 127.18	$ —
December 31	$ 160.00	$ 128.01	$ 12.00	$ 149.60	$ 132.70	$ 9.00

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, 2020 and 2019, approximately 4,331,369 and 4,384,590, of our common shares were traded, respectively. The dividends indicated above were special dividends.

On October 27, 2020, our board of directors approved a special cash dividend of $12.00 per share paid on December 4, 2020, to shareholders of record as of November 25, 2020. This dividend reduced shareholders' equity by approximately $38.0 million.

On October 27, 2020, our board of directors also approved the initiation of a regular quarterly dividend beginning the first of quarter 2021. Subject to approval each quarter by our board of directors and compliance with applicable law, we expect to pay a regular quarterly dividend of $1.00 per share. Going forward, at the end of each year, our board of directors will decide whether to pay an additional special dividend. Although we currently expect to pay the aforementioned dividends, depending on the circumstances and the board of directors' judgment, we may not pay such dividends as described.

The approximate number of record holders of our common shares at February 25, 2021 was 82, 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 "2020 Repurchase Program") and shares withheld for tax payments due upon vesting of employee restricted stock units and restricted stock awards that vested during the fourth quarter of fiscal year 2020:

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, 2020 through October 31, 2020	2,954	—	—	—	$ 35,375,676
November 1, 2020 through November 30, 2020	—	—	—	—	$ 35,375,676
December 1, 2020 through December 31, 2020	—	—	—	—	$ 35,375,676
Total	2,954	—		—	$ 35,375,676

(a) We regularly withhold shares for tax payments due upon the vesting of employee Restricted Stock. During the quarter ended December 31, 2020, we purchased 2,954 shares for employee tax withholdings at an average price paid per share of $126.32.

(b) On February 27, 2020, our board of directors approved the 2020 Repurchase Program, authorizing management to repurchase up to $50.0 million of our common shares in the open market and in private transactions in accordance with applicable securities laws. The 2020 Repurchase Program will expire in February 2022, or upon the earlier completion of all authorized purchases under such program.

ITEM 6. Selected Financial Data

Not applicable.

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

In this Item 7, we discuss and analyze our consolidated results of operations for the past three fiscal years and other factors that may affect our 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 performances of the U.S. and international equity markets, as well as the U.S. fixed income market, have a direct impact on our operations and financial position.

Equity Markets

The year 2020 was challenging due to the global spread of COVID-19 and related pandemic. Economic activity ground to a halt as countries hardest hit by the pandemic faced closing businesses, spending declines, and record unemployment levels. Despite unprecedented economic and market disruption, global equities posted positive returns in excess of 16% in 2020 (as measured by the MSCI All Country World Index) and U.S. stocks returned in excess of 18% (as measured by the S&P 500® Index), a remarkable advance given the economic backdrop. Technology stocks were clear winners in 2020 as the work from home era took hold. Online retailers also did well, benefiting from a shift to online shopping in the wake of the pandemic. Energy stocks struggled as oil demand and prices fell on weak economic and transportation activity. In the second half of the year, central bank liquidity, fiscal stimulus, and optimism of rapid-to-market COVID-19 vaccines provided stocks a welcome tailwind.

Fixed Income Markets

Throughout 2020, Federal Reserve and U.S. Treasury intervention played a key role in the fixed income markets. In the first quarter of 2020, the Federal Reserve cut rates in response to signs of a slowing economy exacerbated by an oil production glut as OPEC and Russia failed to come to terms on production cuts. Starting in mid-March, as it became clear the coronavirus pandemic would result in wide scale business shutdowns, central banks globally moved quickly and decidedly to provide liquidity and support while governments directed stimulus support to citizens and businesses facing economic uncertainty. Corporate bond purchasing programs initiated by the U.S. government were barely utilized but served as the impetus for a historic pace of debt issuance in both investment grade and high yield corporate credit markets. The Bloomberg Barclays U.S. Aggregate Bond Index returned 7.5%, second only to 2019 for its best performance since 2002, while the Bloomberg Barclays Investment Grade Corporate Index returned 9.9%, its second-best year since 2009. The ICE BofA U.S. High Yield Index returned 7.1%, rebounding from the worst first quarter's performance (down 12.7%) since 2008.

Industry Update

Ongoing trends in the investment management industry, including the shift toward private market investments, downward fee pressure, industry consolidation, rising demand for ESG, and expanding conversations around DEI continued in 2020 and do not show any signs of abating.

Investor dollars continue moving toward private markets and less liquid vehicles as investors seek higher returns and lower correlation, contributing to a decline in the number of publicly traded companies. At the same time, investors continue to seek lower cost alternatives to acquire their beta exposure, often utilizing passive exchange-traded funds ("ETFs"), which in turn drives performance of some of the largest publicly traded companies held by broad indexes, making it a difficult environment for active managers to outperform.

The COVID-19 pandemic saw a reduction in travel, which resulted in increased use of technology-based communications. Investors also responded to the pandemic and other social justice events in 2020 by requesting greater clarity on ESG strategies as well as greater transparency on diversity initiatives and commitments.

Consolidation continued, especially in the consulting and wealth management arenas. In fact, over the past five years, we have seen a large number of decision makers leave the market. Some have left the industry all together, some required a liquidity event as a transition of ownership was needed, while others pursued growth and scale via mergers and acquisitions. We continue to see moves away from individual decision-making structures in favor of decision-making teams or outsourcing investment decisions to professional buyer groups such as home offices or outsourced chief investment officers, and we expect net new flows to be driven heavily by these groups going forward.

When you consider these trends in combination with the impact of the COVID-19 pandemic and the asset management industry's own life cycle, you get a glimpse into the "new normal" in which asset managers operate. We believe Diamond Hill is well positioned to navigate these changing tides and adapt to the evolving industry landscape. We continue to believe we can deliver market-beating returns over a full market cycle through active management. Our commitment to managing our portfolios with a strict capacity discipline helps protect our ability to deliver excellent investment outcomes for clients. Our long-standing relationships with professional buyer groups enable us to reach investors who share our long-term perspective. Helping clients achieve their desired investment outcomes is our priority, and we believe our commitment to capacity discipline, alignment of interests with our clients and strong investment results will result in a successful and sustainable future.

Investment Results

It is important to note the past decade has seen a lengthy period of dominance for growth over value stocks, with the performance differential becoming particularly wide over the past three years. In the 10 years ended December 31, 2020, the Russell 3000 Growth Index annualized 16.9% versus 10.4% for the Russell 3000 Value Index. In 2020, the growth index returned 38.3% to the value index's 2.9% — a performance gap that eclipses any single calendar year since the inception of the Russell 3000 Growth and Value indices in 1995. Because of our valuation-discipline, many clients choose to measure performance against value indices.

The following is a summary of the investment returns for each of our equity strategies as of December 31, 2020, relative to their respective core and value indices, as applicable.

Equity Composites	Inception	As of December 31, 2020 1 Year	3 Year	5 Year	10 Year	Since Inception
Diamond Hill Small Cap	**12/31/2000**	**(0.03)%**	**1.3 %**	**5.80 %**	**7.22 %**	**9.83 %**
Russell 2000 Index		19.96 %	10.25 %	13.26 %	11.2 %	8.74 %
Russell 2000 Value Index		4.63 %	3.72 %	9.65 %	8.66 %	8.54 %
Diamond Hill Small-Mid Cap	**12/31/2005**	**1.55 %**	**4.43 %**	**7.99 %**	**9.88 %**	**8.59 %**
Russell 2500 Index		19.99 %	11.33 %	13.64 %	11.97 %	9.55 %
Russell 2500 Value Index		4.88 %	4.34 %	9.43 %	9.33 %	7.47 %
Diamond Hill Mid Cap	**12/31/2013**	**(1.47)%**	**3.77 %**	**8.00 %**	**NA**	**6.98 %**
Russell Midcap Index		17.1 %	11.61 %	13.40 %	NA	10.96 %
Russell Midcap Value Index		4.96 %	5.37 %	9.73 %	NA	8.22 %
Diamond Hill Large Cap	**6/30/2001**	**9.49 %**	**9.56 %**	**12.70 %**	**12.31 %**	**9.43 %**
Russell 1000 Index		20.96 %	14.82 %	15.60 %	14.01 %	8.36 %
Russell 1000 Value Index		2.8 %	6.07 %	9.74 %	10.5 %	7.07 %
Diamond Hill Large Cap Concentrated	**12/31/2011**	**10.03 %**	**10.06 %**	**13.50 %**	**NA**	**13.49 %**
Russell 1000 Index		20.96 %	14.82 %	15.60 %	NA	15.49 %
Russell 1000 Value Index		2.8 %	6.07 %	9.74 %	NA	11.69 %
Diamond Hill All Cap Select	**6/30/2000**	**14.83 %**	**9.95 %**	**12.06 %**	**12.15 %**	**10.36 %**
Russell 3000 Index		20.89 %	14.49 %	15.43 %	13.79 %	7.17 %
Russell 3000 Value Index		2.87 %	5.89 %	9.74 %	10.36 %	7.36 %
Diamond Hill Long-Short	**6/30/2000**	**0.5 %**	**5.31 %**	**6.81 %**	**7.72 %**	**7.24 %**
Russell 1000 Index		20.96 %	14.82 %	15.60 %	14.01 %	7.08 %
60% Russell 1000 Index / 40% BofA ML US T-Bill 0-3 Month Index		13.3 %	9.81 %	9.92 %	8.7 %	5.14 %
Diamond Hill Global	**12/31/2013**	**1.93 %**	**4.44 %**	**10.68 %**	**NA**	**7.35 %**
Morningstar Global Markets Index		16.07 %	9.73 %	12.11 %	NA	8.80 %
Diamond Hill International	**12/31/2016**	**6.94 %**	**6.38 %**	**NA**	**NA**	**12.32 %**
Morningstar Global Markets ex US Index		11.17 %	5.07 %	NA	NA	10.25 %

- Composite returns are net of fees.
- Index returns do not reflect any fees.

The following is a summary of the investment returns for each of our fixed income strategies as of December 31, 2020, relative to their respective passive benchmarks.

		As of December 31, 2020				
Fixed Income Composites	Inception	1 Year	3 Year	5 Year	10 Year	Since Inception
Diamond Hill Short Duration Securitized Bond	**7/31/2016**	**3.29 %**	**3.89 %**	**NA**	**NA**	**3.83 %**
Bloomberg Barclays US 1-3 Yr. Gov./Credit Index		3.33 %	2.98 %	NA	NA	2.12 %
Diamond Hill Core Bond	**7/31/2016**	**8.13 %**	**6.01 %**	**NA**	**NA**	**4.43 %**
Bloomberg Barclays US Aggregate Index		7.51 %	5.34 %	NA	NA	3.66 %
Diamond Hill Corporate Credit	**9/30/2002**	**9.95 %**	**7.92 %**	**8.83 %**	**6.96 %**	**7.38 %**
BofA ML US Corporate & High Yield Index		9.34 %	6.91 %	7.07 %	5.83 %	6.36 %
Diamond Hill High Yield	**12/31/2014**	**13.84 %**	**10.08 %**	**11.11 %**	**NA**	**9.36 %**
BofA ML US High Yield Index		6.17 %	5.89 %	8.43 %	NA	6.14 %

- Composite returns are net of fees.
- Index returns do not reflect any fees.

Key Financial Performance Indicators

There are a variety of key performance indicators that we monitor 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,		
	2020	2019	2018
Ending AUM (in millions)	$ 26,411	$ 23,399	$ 19,108
Average AUM (in millions)	21,907	21,653	21,950
Net cash inflows (outflows) (in millions)	1,529	(677)	(1,102)
Total revenue (in thousands)	126,388	136,624	145,628
Net operating income	45,538	47,935	71,256
Net operating income, as adjusted[(a)]	47,757	53,912	69,134
Average advisory fee rate	0.54 %	0.59 %	0.62 %
Operating profit margin	36 %	35 %	49 %
Operating profit margin, as adjusted[(a)]	38 %	39 %	47 %

(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 us are generally based on the value of the investment portfolios we manage and fluctuate with changes in the total value of our AUM. We recognize revenue when we satisfy the performance obligations under the terms of a contract with a client.

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, 2020, 2019, and 2018:

(in millions)	Assets Under Management As of December 31, 2020	2019	2018
Proprietary funds	$ 17,615	$ 16,148	$ 13,440
Sub-advised funds	3,185	2,029	1,358
Separately managed accounts	5,611	5,222	4,310
Total AUM	$ 26,411	$ 23,399	$ 19,108

(in millions)	Assets Under Management by Investment Strategy As of December 31, 2020	2019	2018
Small Cap	$ 556	$ 795	$ 1,048
Small-Mid Cap	2,810	3,243	2,770
Mid Cap	992	569	143
Large Cap	15,075	12,316	9,611
Large Cap Concentrated	27	28	26
All Cap Select	446	528	432
Long-Short	2,056	3,605	3,767
Global/International	33	35	18
Total Equity	21,995	21,119	17,815
Short Duration Securitized Bond	1,132	809	579
Core Fixed Income	541	300	55
Long Duration Treasury	62	52	52
Corporate Credit	2,020	1,147	757
High Yield	724	135	54
Total Fixed Income	4,479	2,443	1,497
Total Equity and Fixed Income	26,474	23,562	19,312
(Less: Investments in affiliated funds) [a]	(63)	(163)	(204)
Total AUM	$ 26,411	$ 23,399	$ 19,108

(a) Certain of the Funds own shares of the Diamond Hill Short Duration Securitized Bond 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,** 2020	2019	2018
AUM at beginning of the year	$ 23,399	$ 19,108	$ 22,317
Net cash inflows (outflows)			
proprietary funds	879	(499)	(978)
sub-advised funds	713	216	(25)
separately managed accounts	(63)	(394)	(99)
	1,529	(677)	(1,102)
Net market appreciation (depreciation) and income	1,483	4,968	(2,107)
Increase (decrease) during the year	3,012	4,291	(3,209)
AUM at end of the year	$ 26,411	$ 23,399	$ 19,108
Average AUM during the year	$ 21,907	$ 21,653	$ 21,950

(in millions)	Net Cash Inflows (Outflows) Further Breakdown For the Year Ended December 31, 2020	2019	2018
Net cash inflows (outflows)			
Equity	$ (284)	$ (1,515)	$ (1,554)
Fixed Income	1,813	838	452
	$ 1,529	$ (677)	$ (1,102)

Equity flows were mixed in 2020. Our Large Cap and Mid Cap strategies had combined net inflows of $1.6 billion. However, these net inflows were more than offset by the net outflows in our Long-Short, Small Cap and Small-Mid Cap strategies, which collectively had outflows of $1.8 billion.

Our fixed income strategies continued to see strong growth in 2020 as each of the strategies has met long-term performance objectives compared to peers and benchmarks. Our focused marketing and branding efforts over the past couple years, along with strong performance, led to combined net inflows of $1.8 billion, with each of the strategies attracting at least $200 million in net inflows.

Model Delivery Programs

We provide strategy-specific model portfolios to sponsors of model delivery programs. We do not have discretionary investment authority over individual client accounts in model delivery programs. Therefore, these assets are not included in our AUM. We provide updated model portfolios to the program sponsors on a periodic basis. We are paid for our services by the program sponsor at a pre-determined rate based on assets in the program. Model delivery program assets were $1.1 billion, $0.9 billion, and $0.5 billion as of December 31, 2020, 2019, and 2018, respectively.

Consolidated Results of Operations

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

(in thousands, except per share amounts and percentages)	2020	2019	% Change	2019	2018	% Change
Total revenue	$ 126,388	$ 136,624	(7)%	$ 136,624	$ 145,628	(6)%
Net operating income	45,538	47,935	(5)%	47,935	71,256	(33)%
Net operating income, as adjusted [(a)]	47,757	53,912	(11)%	53,912	69,134	(22)%
Net income attributable to common shareholders	38,661	54,959	(30)%	54,959	47,376	16%
Earnings per share attributable to common shareholders (diluted)	$ 12.03	$ 15.99	(25)%	$ 15.99	$ 13.48	19%
Operating profit margin	36 %	35 %	NM	35 %	49 %	NM
Operating profit margin, as adjusted [(a)]	38 %	39 %	NM	39 %	47 %	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.

Summary Discussion of Consolidated Results of Operations - Year Ended December 31, 2020, compared with Year Ended December 31, 2019

Revenue for the year ended December 31, 2020, decreased $10.2 million compared to the year ended December 31, 2019, primarily due to a decrease in the average advisory fee rate from 0.59% to 0.54% year-over-year, which was partially offset by a 1% increase in average AUM. The decrease in average advisory fee rate was driven by an increase in the mix of assets held in lower fee rate strategies.

Operating profit margin was 36% for the year ended December 31, 2020, and 35% for the year ended December 31, 2019. Operating profit margin, as adjusted, was 38% for the year ended December 31, 2020, and 39% for the year ended December 31, 2019. Operating profit margin, as adjusted, excludes deferred compensation expense (benefit) from operating income because it is offset by an equal amount in investment income below net operating income on the income statement and thus has no effect on net income attributable to the Company. We believe this non-GAAP measure helps the reader to understand our core operating results and increases comparability period-to-period. See the "Use of Supplemental Data as Non-GAAP Performance Measures" section below in Part II. Item 7 of this Annual Report on Form 10-K.

We expect that our operating margin will fluctuate from period to period based on various factors, including revenues, investment results, employee performance, staffing levels, gains and losses on investments held in deferred compensation plans, the ongoing impact of COVID-19, and development of investment strategies, products, and channels. We compensate portfolio managers based on long-term performance, so when revenue and long-term performance are misaligned, operating margins can fluctuate materially.

We recognized $6.6 million in investment income for the year ended December 31, 2020, compared with investment income of $30.5 million for the year ended December 31, 2019. The decrease in market appreciation year over year was due to a lower average investment balance throughout the year and lower returns on the investments.

Income tax expense decreased $4.7 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. The decrease in income tax expense was primarily due to a decrease in DHCM's income before taxes, which was partially offset by an increase in our effective tax rate from 23.8% to 26.8% year-over-year. The increase in our effective tax rate in 2020 was primarily due to excess tax deficits on the vesting of restricted stock awards of $0.6 million in 2020 and the $1.0 million benefit attributable to redeemable noncontrolling interests in 2019.

We generated net income attributable to common shareholders of $38.7 million ($12.03 per diluted share) for the year ended December 31, 2020, compared with net income attributable to common shareholders of $55.0 million ($15.99 per diluted share) for the year ended December 31, 2019, primarily due to decreased revenues and a decrease in investment income.

See the “Use of Supplemental Data as Non-GAAP Performance Measures” section below in Part II, Item 7, of this Annual Report on Form 10-K.

Summary Discussion of Consolidated Results of Operations - Year Ended December 31, 2019, compared with Year Ended December 31, 2018

Revenue for the year ended December 31, 2019, decreased $9.0 million compared to the year ended December 31, 2018, primarily due to a decrease in the average advisory fee rate from 0.62% to 0.59% year-over-year and a 1% decrease in average AUM. The decrease in average advisory fee rate was driven by an increase in the mix of assets held in lower fee rate strategies.

Operating profit margin was 35% for the year ended December 31, 2019, down from 49% for the year ended December 31, 2018. Operating profit margin, as adjusted, was 39% for the year ended December 31, 2019, down from 47% for the year ended December 31, 2018. Operating profit margin, as adjusted, excludes deferred compensation expense (benefit) from operating income because it is offset by an equal amount in investment income below net operating income on the income statement and thus has no effect on net income attributable to the Company. We believe this non-GAAP measure helps the reader to understand our core operating results and increases comparability period to period. See the "Use of Supplemental Data as Non-GAAP Performance Measures" section below in Part II. Item 7, of this Annual Report on Form 10-K.

We expect that our operating margin will fluctuate from period to period based on various factors, including revenues, investment results, employee performance, staffing levels, gains and losses on investments held in deferred compensation plans, and development of investment strategies, products, or channels. We compensate portfolio managers based on long-term performance, so when revenue and long-term performance are misaligned, operating margins can fluctuate materially.

We recognized $30.5 million in investment income for the year ended December 31, 2019, due primarily to market appreciation from our investments, compared with investment losses of $6.3 million for the year ended December 31, 2018, largely due to market depreciation on our investments.

Income tax expense was consistent from the year ended December 31, 2019, compared to the year ended December 31, 2018. The impact of the increase of pre-tax income was fully offset by the reduction in the effective rate from 28.7% to 23.8% year-over-year. The decrease in the effective tax rate was primarily due to uncertain state tax positions of approximately $3.0 million recorded in 2018.

We 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. The increase was due to an increase in investment income, which was partially offset by the decrease in net operating income.

See the "Use of Supplemental Data as Non-GAAP Performance Measures" section below in Part II. Item 7, of this Annual Report on Form 10-K.

Revenue

(in thousands, except percentages)	2020	2019	% Change	2019	2018	% Change
Investment advisory	$ 119,125	$ 128,009	(7)%	$ 128,009	$ 135,318	(5)%
Mutual fund administration, net	7,263	8,615	(16)%	8,615	10,310	(16)%
Total	126,388	136,624	(7)%	136,624	145,628	(6)%

Revenue for the Year Ended December 31, 2020 compared with Year Ended December 31, 2019

Investment Advisory Fees. Investment advisory fees decreased by $8.9 million, or 7%, from the year ended December 31, 2019, to the year ended December 31, 2020. 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 0.59% in 2019 to 0.54% in 2020, which was partially offset by an increase 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, 2020, compared to the year ended December 31, 2019. For the year ended December 31, 2020, the average advisory fee rates for equity and fixed income strategies were 0.57% and 0.40%, respectively. 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.

Mutual Fund Administration Fees. Mutual fund administration fees decreased $1.4 million, or 16%, from the year ended December 31, 2019, to the year ended December 31, 2020. Mutual fund administration fees include administration fees received from the Funds, which are calculated as a percentage of the Funds' average AUM. The decrease was primarily due to an increase in sub-transfer agent and servicing fees paid by us on behalf of the Funds. In addition, there was a 1% decrease in the Funds' average AUM from the year ended December 31, 2019, to the year ended December 31, 2020.

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
1/1/18 - 2/27/2018	0.23%	0.18%	0.08%
2/28/2018 - 12/31/2019	0.21%	0.17%	0.05%

Expenses

(in thousands, except percentages)	2020	2019	% Change	2019	2018	% Change
Compensation and related costs, excluding deferred compensation expense	$ 58,292	$ 60,264	(3)%	$ 60,264	$ 55,975	8%
Deferred compensation expense (benefit)	2,219	5,977	NM	5,977	(2,121)	NM
General and administrative	11,003	13,278	(17)%	13,278	11,649	14%
Sales and marketing	6,000	5,867	2%	5,867	5,243	12%
Mutual fund administration	3,336	3,303	1%	3,303	3,626	(9)%
Total	80,850	88,689	(9)%	88,689	74,372	19%

Expenses for the Year Ended December 31, 2020 compared with Year Ended December 31, 2019

Compensation and Related Costs, Excluding Deferred Compensation Expense. Employee compensation and benefits decreased by $2.0 million from the year ended December 31, 2019, to the year ended December 31, 2020. This decrease is primarily due to decreases in severance expense of $1.6 million and in restricted stock expense of $1.0 million. These decreases were partially offset by increases in salary and related benefits of $0.2 million and in incentive compensation of $0.4 million. On average, we had 126 full-time equivalent employees for 2020, compared to 128 for 2019. 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 $2.2 million for the year ended December 31, 2020, compared to deferred compensation expense of $6.0 million for the year ended December 31, 2019, mostly due to a decrease in market appreciation on our deferred compensation investments period over period. The gain on deferred compensation plan investments increases deferred compensation expense 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 us.

General and Administrative. General and administrative expenses decreased by $2.3 million, or 17%, from the year ended December 31, 2019, to the year ended December 31, 2020. This decrease was primarily due a non-recurring $1.1 million refund received in 2020 related to our Ohio commercial activity tax, which is a gross receipts tax, and therefore, is not included in income taxes, as well as decreases in corporate recruiting fees of $0.8 million, and in travel and related expenses period over period.

Sales and Marketing. Sales and marketing expenses increased by $0.1 million, or 2%, from the year ended December 31, 2019, to the year ended December 31, 2020. The increase was primarily due to an increase in spending related to our customer relationship management system and related external data costs of $0.9 million. This increase was largely offset by a reduction in sales and marketing travel and related expense of $0.8 million.

Mutual Fund Administration. Mutual fund administration expenses increased by 1% from the year ended December 31, 2019, to the year ended December 31, 2020. Mutual fund administration expense consists of both variable and fixed expenses. The variable expenses are based on Fund AUM levels and the number of shareholder accounts.

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 increases in salary and related benefits of $3.0 million and incentive compensation of $1.3 million. On average, we had 128 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, primarily 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, from 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 us.

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 increases in corporate recruiting fees of $1.0 million, market research and data expense of $0.3 million, and 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 were brought in-house during 2018, as well as a 4% decrease in average Funds' AUM from the year ended December 31, 2018, to the year ended December 31, 2019.

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 $205.1 million and $211.1 million of total assets as of December 31, 2020, and 2019, 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.

Throughout 2020, the COVID-19 pandemic created uncertainty and volatility in the financial markets, and could continue to do so in 2021, which may impact our ability to access capital and liquidity and the terms under which we can do so. We will continue to assess our liquidity needs as the impact of the COVID-19 pandemic on the economy, the financial markets, and our operations continues to evolve.

Uses of Liquidity

In line with our 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, and share repurchase opportunities.

In September 2018, our board of directors approved the 2018 Repurchase Program authorizing the purchase of up to $50.0 million of our common shares. Under the 2018 Repurchase Program, we repurchased 28,361 of our common shares during the first two months of 2020 for a total of $4.0 million, which exhausted the $50.0 million authorized.

On February 27, 2020, the board of directors approved the 2020 Repurchase Program authorizing management to repurchase up to and additional $50 million of our common shares. Under the 2020 Repurchase Program, we repurchased 129,389 of our common shares during the year ended December 31, 2020, for a total of $14.6 million. As of December 31, 2020, $35.4 million remains available for repurchases under the 2020 Repurchase Program. The authority to repurchase shares may be exercised from time to time as market conditions warrant, is subject to regulatory constraints, and will expire two years from the date of board approval, or upon the earlier repurchase in full of the authorized amount of shares. The timing, amount, and other terms and conditions of any repurchases will be determined by management in its discretion based on a variety of factors, including the market price of such shares, corporate considerations, general market and economic conditions, legal requirements, and the expected and continued impact of COVID-19.

The following table summarizes the quarterly repurchase transactions made under the 2020 Repurchase Program since its inception:

Period	Total Number of Shares Purchased		Average Price Paid Per Share Purchased		Purchase Price of Shares Purchased
Quarter Ended March 31, 2020	48,576	$	106.22	$	5,159,919
Quarter Ended June 30, 2020	27,078		103.48		2,801,897
Quarter Ended September 30, 2020	53,735	$	123.99		6,662,508
Quarter Ended December 31, 2020	—		—		—
Total	129,389	$	113.03	$	14,624,324

Fiscal 2020 was the 13th consecutive year that we paid a special dividend. We paid out special dividends of $12.00, $9.00, and $8.00 during the years ended December 31, 2020, 2019, and 2018, respectively. The 2020, 2019, and 2018 special dividends reduced shareholders' equity by $38.0 million, $30.3 million, and $28.1 million, respectively.

On October 27, 2020, our board of directors approved a special cash dividend of $12.00 per share paid on December 4, 2020, to shareholders of record as of November 25, 2020. This dividend reduced shareholders' equity by approximately $38.0 million.

On October 27, 2020, our board of directors also approved the initiation of a regular quarterly dividend beginning the first of quarter 2021. Subject to approval each quarter by our board of directors and compliance with applicable law, we expect to pay a regular quarterly dividend of $1.00 per share. Going forward, at the end of each year, our board of directors will decide whether to pay an additional special dividend. Although we currently expect to pay the aforementioned dividends, depending on the circumstances and the board of directors' judgment, we may not pay such dividends as described.

Working Capital

As of December 31, 2020, we had working capital of approximately $168.9 million, compared to $176.7 million as of December 31, 2019. Working capital includes cash, accounts receivable, investments, direct investments in the Diamond Hill International Fund and the Diamond Hill Global Fund (together the "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.

We had 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, 2020 and 2019:

	As of December 31,			
		2020		2019
Corporate Investments:				
Diamond Hill Core Bond Fund	$	47,204,636	$	43,691,925
Diamond Hill Research Opportunities Fund[(a)]		—		16,223,519
Diamond Hill Long-Short Fund[(a)]		16,945,863		—
Diamond Hill High Yield Fund		—		14,984,548
Diamond Hill Global Fund		11,269,719		11,073,515
Diamond Hill International Fund		10,156,320		8,039,570
Total Corporate Investments		85,576,538		94,013,077
Deferred Compensation Plan Investments in the Funds		33,241,952		30,342,204
Total investments held by DHCM		118,818,490		124,355,281
Redeemable noncontrolling interest in Consolidated Funds		9,582,646		15,081,897
Total investments	$	128,401,136	$	139,437,178

(a) In October 2020, the Diamond Hill Research Opportunities Fund merged into the Diamond Hill Long-Short Fund.

Cash Flow Analysis

Cash Flows from Operating Activities

Our 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, 2020, net cash provided by operating activities totaled $59.8 million. Cash provided by operating activities was primarily driven by net income of $38.2 million, the add back of share-based compensation of $7.7 million, depreciation of $1.0 million, net redemptions of securities held in the underlying investment portfolios of the Consolidated Funds of $3.2 million, and the cash impact of timing differences in the settlement of assets and liabilities of $12.7 million. These cash inflows were partially offset by net gains on investments of $3.0 million. Absent the operating cash flows of the Consolidated Funds, cash flows from operations would have been approximately $57.3 million.

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 cash impact of timing differences in the 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 cash impact of timing differences in the 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.

Cash Flows from Investing Activities

Our 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 $8.4 million for the year ended December 31, 2020. The cash provided was primarily due to proceeds from the redemption of investments totaling $25.7 million. These proceeds were partially offset by corporate investment purchases of $14.9 million and property and equipment purchases (primarily capitalized software) of $2.5 million.

Cash flows provided by investing activities totaled $10.9 million for the year ended December 31, 2019. The cash provided was primarily due to proceeds from the redemption of investments totaling $48.6 million. These proceeds were partially offset by corporate investment purchases of $14.4 million and property and equipment purchases of $0.7 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 de-consolidation of our investment in an exchange traded fund during the period.

Cash flows used in investing activities totaled $4.3 million for the year ended December 31, 2018. The cash used was primarily due to corporate investment purchases of $6.3 million and property and equipment purchases of $0.8 million. These cash outflows were partially offset by proceeds from the redemptions of investments of $2.9 million.

Cash Flows from Financing Activities

Our cash flows from financing activities consist primarily of the payment of special dividends, the repurchase of our common shares, shares withheld related to employee tax withholding and distributions to, or contributions from, redeemable non-controlling interest holders.

For the year ended December 31, 2020, net cash used in financing activities totaled $62.9 million, consisting of the payment of special dividends of $38.0 million, the repurchase of our common shares of $18.6 million, $1.9 million of shares withheld related to employee tax withholding, and net redemptions from redeemable non-controlling interest holders of $4.3 million.

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 our common shares of $38.7 million, and $1.4 million of shares withheld related to employee tax withholding. These financing outflows were partially offset by net subscriptions received from redeemable non-controlling 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 our common shares of $7.2 million, and $1.9 million of shares withheld related to employee tax withholding. These financing outflows were partially offset by net subscriptions received from redeemable non-controlling interest holders of $21.2 million.

Supplemental Consolidated Cash Flow Statement

The following table summarizes the condensed cash flows for the years ended December 31, 2020, 2019, and 2018 that are attributable to Diamond Hill and to the Consolidated Funds, and the related eliminations required in preparing the consolidated financial statements.

	Year Ended December 31, 2020			
	Cash flow attributable to Diamond Hill Investment Group, Inc.	Cash flow attributable to Consolidated Funds	Eliminations	As reported on the Consolidated Statement of Cash Flows
Cash flows from operating activities:				
Net income	$ 38,660,545	$ 403,985	$ (899,392)	$ 38,165,138
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	992,836	—	—	992,836
Share-based compensation	7,739,320	—	—	7,739,320
Net (gains)/losses on investments	(3,500,848)	(403,985)	899,392	(3,005,441)
Net change in securities held by Consolidated Funds	—	3,179,362	—	3,179,362
Other changes in assets and liabilities	13,394,030	(692,760)	—	12,701,270
Net cash provided by operating activities	57,285,883	2,486,602	—	59,772,485
Net cash provided by investing activities	6,587,218	—	1,824,482	8,411,700
Net cash used in financing activities	(58,571,152)	(2,486,602)	(1,824,482)	(62,882,236)
Net change during the period	5,301,949	—	—	5,301,949
Cash and cash equivalents at beginning of year	93,176,253	—	—	93,176,253
Cash and cash equivalents at end of year	$ 98,478,202	$ —	$ —	$ 98,478,202

	Year Ended December 31, 2019			
	Cash flow attributable to Diamond Hill Investment Group, Inc.	Cash flow attributable to Consolidated Funds	Eliminations	As reported on the Consolidated Statement of Cash Flows
Cash flows from Operating Activities:				
Net Income	$ 54,959,024	$ 12,108,850	$ (7,313,555)	$ 59,754,319
Adjustments to reconcile net income to net cash provided by (used in) 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			
	Cash flow attributable to Diamond Hill Investment Group, Inc.	Cash flow attributable to Consolidated Funds	Eliminations	As reported on the Consolidated Statement of Cash Flows
Cash flows from Operating Activities:				
Net Income	$ 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

Selected Quarterly Information

Our unaudited quarterly results of operations for the years ended December 31, 2020 and 2019 are summarized below:

	At or For the Quarter Ended							
	2020				2019			
(in thousands, except per share and AUM data)	12/31	09/30	06/30	03/31	12/31	09/30	06/30	03/31
Assets under management (in millions)	$ 26,411	$ 22,283	$ 20,645	$ 17,496	$ 23,399	$ 22,203	$ 21,612	$ 20,880
Total revenue	35,037	31,176	28,249	31,926	35,908	34,592	33,545	32,579
Compensation and related costs, excluding deferred compensation expense	16,613	13,704	12,558	15,417	16,651	15,715	14,342	13,557
Deferred compensation expense (benefit)	4,588	1,961	3,826	(8,156)	1,925	357	1,283	2,412
Other expenses	5,761	5,541	4,838	4,199	5,368	5,763	5,840	5,476
Total operating expenses	26,962	21,206	21,222	11,460	23,944	21,835	21,465	21,445
Net operating income	8,075	9,970	7,027	20,466	11,964	12,757	12,080	11,134
Investment income (loss), net	12,367	5,053	11,563	(22,398)	6,880	2,822	6,520	14,285
Income (loss) before taxes	20,442	15,023	18,590	(1,932)	18,844	15,579	18,600	25,419
Income tax expense	(4,529)	(3,882)	(4,952)	(595)	(4,321)	(4,062)	(4,442)	(5,863)
Net income (loss)	15,913	11,141	13,638	(2,527)	14,523	11,517	14,158	19,556
Net income attributable to common shareholders	14,364	10,566	12,201	1,530	13,414	11,417	13,195	16,933
Diluted EPS	$ 4.54	$ 3.30	$ 3.79	$ 0.47	$ 3.99	$ 3.35	$ 3.79	$ 4.84
Diluted weighted shares outstanding	3,164	3,201	3,221	3,273	3,364	3,412	3,478	3,497

Contractual Obligations

The following table presents a summary of our future obligations under the terms of lease commitments, contractual purchase obligations, and deferred compensation obligations as of December 31, 2020. 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, sales data costs, and investment related research software. These obligations may be cancellable at earlier times than those indicated and, under certain circumstances, 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 include 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 2021 and future years:

		Payments Due by Period					
	Total	2021	2022	2023	2024	2025	Thereafter
Operating lease obligations	$ 2,652	$ 624	$ 624	$ 624	$ 624	$ 156	$ —
Purchase obligations	9,345	4,273	2,521	1,344	595	612	—
Deferred compensation obligations	33,242	3,079	2,787	3,238	3,470	4,108	16,560
Total	$ 45,239	$ 7,976	$ 5,932	$ 5,206	$ 4,689	$ 4,876	$ 16,560

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, 2020, 2019, and 2018, respectively.

	Year Ended December 31,		
(in thousands, except percentages and per share data)	2020	2019	2018
Total revenue	$ 126,388	$ 136,624	$ 145,628
Net operating income, GAAP basis	$ 45,538	$ 47,935	$ 71,256
Non-GAAP adjustments:			
Gains (losses) on deferred compensation plan investments, net[1]	2,219	5,977	(2,122)
Net operating income, as adjusted, non-GAAP basis[2]	47,757	53,912	69,134
Non-GAAP adjustments:			
Tax provision on net operating income, as adjusted, non-GAAP basis[3]	(12,668)	(13,680)	(19,542)
Net operating income, as adjusted, after tax, non-GAAP basis[4]	$ 35,089	$ 40,232	$ 49,592
Net operating income, as adjusted after tax per diluted share, non-GAAP basis[5]	$ 10.91	$ 11.71	$ 14.11
Diluted weighted average shares outstanding, GAAP basis	3,215	3,437	3,515
Operating profit margin, GAAP basis	36 %	35 %	49 %
Operating profit margin, as adjusted, non-GAAP basis[6]	38 %	39 %	47 %

[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 us.

[2] *Net operating income, as adjusted:* This non-GAAP measure represents our 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

We do not have any 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 any entity whose 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. We record performance-based fees at the end of the contract measurement period because the performance-based fees earned are constrained based on movements in the financial markets.

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 considers 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

Our revenues and net income are based primarily on the value of our 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.

During the first quarter of 2020, the impact of the COVID-19 pandemic spread rapidly on a global basis and caused increasing disruption to populations, economic activity, and the global financial markets. While markets recovered sharply in the second, third, and fourth quarters of 2020, the impact and ongoing uncertainty related to the COVID-19 pandemic continued through the end of 2020.

The table below summarizes our market risks as of December 31, 2020, and shows the effects of a hypothetical 10% increase and decrease in investments.

	Fair Value as of December 31, 2020	Fair Value Assuming a Hypothetical 10% Increase	Fair Value Assuming a Hypothetical 10% Decrease
Equity investments	$ 75,115,159	$ 82,626,675	$ 67,603,643
Fixed Income investments	53,285,977	58,614,575	47,957,379
Total	$ 128,401,136	$ 141,241,250	$ 115,561,022

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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, 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, 2020, 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 25, 2021 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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of the assets under management data used in the calculation of sub-advisory and separately managed account investment advisory fee revenue

As discussed in Note 2 to the consolidated financial statements, the Company recognizes revenue for its sub-advisory and separately managed account investment advisory agreements based on a percentage of its assets under management (AUM). The Company recognized $31.0 million in investment advisory fees related to sub-advised funds and separately managed accounts during the year ended December 31, 2020. AUM is an input to the calculation of investment advisory fee revenue. Specifically, as it pertains to these accounts, the inputs to the AUM calculation and the calculated AUM value are transmitted through multiple information technology (IT) systems used in the calculation of investment advisory fee revenue.

We identified the evaluation of the AUM data used in the calculation of sub-advisory and separately managed account investment advisory fee revenue as a critical audit matter. There is a high degree of auditor judgment required to perform procedures to address the Company's use of multiple IT systems to maintain the AUM data. Such procedures require specialized skills to test the AUM data as it is processed through multiple IT systems.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the critical audit matter. This included controls related to the inputs to the AUM calculation, as well as controls over the reconciliation of AUM between IT systems. We involved IT professionals with specialized skills and knowledge, who assisted in the testing of application and related general IT controls relevant to the IT systems used to maintain AUM data. We compared AUM used in the calculation of investment advisory fees to the source IT systems for a selection of accounts.

/s/ KPMG LLP

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

Columbus, Ohio
February 25, 2021

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, 2020, 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, 2020, 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, 2020 and 2019, 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, 2020, and the related notes (collectively, the consolidated financial statements), and our report dated February 25, 2021 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. 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 25, 2021

Diamond Hill Investment Group, Inc.
Consolidated Balance Sheets

	December 31, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents	$ 98,478,202	$ 93,176,253
Investments	128,401,136	139,437,178
Accounts receivable	17,805,864	17,223,362
Prepaid expenses	2,977,759	2,857,468
Income taxes receivable	256,538	3,849,099
Property and equipment, net of depreciation	6,740,396	5,733,737
Deferred taxes	8,437,446	10,386,853
Total assets	$ 263,097,341	$ 272,663,950
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	$ 8,002,303	$ 8,671,731
Accrued incentive compensation	28,400,000	26,615,510
Deferred compensation	33,241,952	30,342,204
Total liabilities	69,644,255	65,629,445
Redeemable noncontrolling interest	9,372,333	14,178,824
Permanent Shareholders' Equity		
Common stock, no par value 7,000,000 shares authorized; 3,168,823 issued and outstanding at December 31, 2020 (inclusive of 183,718 unvested shares); 3,294,672 issued and outstanding at December 31, 2019 (inclusive of 227,844 unvested shares)	80,810,946	95,853,477
Preferred stock, undesignated, 1,000,000 shares authorized and unissued	—	—
Deferred equity compensation	(14,748,118)	(20,331,890)
Retained Earnings	118,017,925	117,334,094
Total permanent shareholders' equity	184,080,753	192,855,681
Total liabilities and shareholders' equity	$ 263,097,341	$ 272,663,950
Book value per share	$ 58.09	$ 58.54

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,		
	2020	2019	2018
REVENUES:			
Investment advisory	$ 119,125,230	$ 128,009,409	$ 135,317,805
Mutual fund administration, net	7,262,488	8,614,971	10,309,943
Total revenue	126,387,718	136,624,380	145,627,748
OPERATING EXPENSES:			
Compensation and related costs, excluding deferred compensation expense	58,291,670	60,264,117	55,975,361
Deferred compensation expense (benefit)	2,218,898	5,976,938	(2,121,691)
General and administrative	11,002,572	13,277,843	11,648,925
Sales and marketing	5,999,846	5,867,297	5,242,848
Mutual fund administration	3,336,575	3,302,767	3,625,898
Total operating expenses	80,849,561	88,688,962	74,371,341
NET OPERATING INCOME	45,538,157	47,935,418	71,256,407
Investment income (loss), net	6,584,849	30,507,375	(6,272,678)
INCOME BEFORE TAXES	52,123,006	78,442,793	64,983,729
Income tax expense	(13,957,868)	(18,688,474)	(18,669,341)
NET INCOME	38,165,138	59,754,319	46,314,388
Net loss (income) attributable to redeemable noncontrolling interest	495,407	(4,795,295)	1,061,441
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ 38,660,545	$ 54,959,024	$ 47,375,829
Earnings per share attributable to common shareholders			
Basic	$ 12.03	$ 15.99	$ 13.49
Diluted	$ 12.03	$ 15.99	$ 13.48
Weighted average shares outstanding			
Basic	3,214,564	3,436,574	3,512,470
Diluted	3,214,564	3,436,641	3,514,528

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, 2018	3,470,428	$ 118,209,111	$ (19,134,963)	$ 73,369,672	$ 172,443,820	$ 20,076,806
Issuance of restricted stock grants	73,025	13,654,592	(13,654,592)	—	—	—
Amortization of restricted stock grants	—	—	6,664,875	—	6,664,875	—
Common stock issued as incentive	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)	—
Repurchases of common stock	(45,470)	(7,229,249)	—	—	(7,229,249)	—
Forfeiture of restricted stock grants	(20,900)	(4,116,626)	4,116,626	—	—	—
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	3,499,285	$ 124,933,060	$ (22,008,054)	$ 92,650,937	$ 195,575,943	$ 62,679,687
Issuance of restricted stock grants	53,969	7,471,799	(7,471,799)	—	—	—
Amortization of restricted stock grants	—	—	6,584,485	—	6,584,485	—
Common stock issued as incentive	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	3,294,672	$ 95,853,477	$ (20,331,890)	$ 117,334,094	$ 192,855,681	$ 14,178,824
Issuance of restricted stock grants	22,099	2,548,440	(2,548,440)	—	—	—
Amortization of restricted stock grants	—	—	5,227,574	—	5,227,574	—
Common stock issued as incentive compensation	23,640	3,396,359	—	—	3,396,359	—
Issuance of common stock related to 401k plan match	20,976	2,511,746	—	—	2,511,746	—
Shares withheld related to employee tax withholding	(19,189)	(1,947,456)	—	—	(1,947,456)	—
Forfeiture of restricted stock grants	(15,625)	(2,904,638)	2,904,638	—	—	—
Repurchases of common stock	(157,750)	(18,646,982)	—	—	(18,646,982)	—
Cash dividend paid of $12.00 per share	—	—	—	(37,976,714)	(37,976,714)	—
Net income	—	—	—	38,660,545	38,660,545	(495,407)
Net redemptions of consolidated funds	—	—	—	—	—	(4,311,084)
Balance at December 31, 2020	3,168,823	$ 80,810,946	$ (14,748,118)	$ 118,017,925	$ 184,080,753	$ 9,372,333

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,		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 38,165,138	$ 59,754,319	$ 46,314,388
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	992,836	1,164,207	1,159,380
Share-based compensation	7,739,320	9,081,421	8,896,610
Increase in accounts receivable	(582,502)	(5,021,516)	(1,014,839)
Change in current income taxes	3,592,561	(6,617,780)	6,883,643
Change in deferred income taxes	1,949,407	1,079,247	(5,622,396)
Net (gain) loss on investments	(3,005,441)	(21,058,463)	14,297,382
Net change in securities held by Consolidated Funds	3,179,362	6,286,645	(52,168,968)
Increase in accrued incentive compensation	5,180,849	3,516,639	5,366,864
Increase in deferred compensation	2,899,748	7,954,330	1,907,084
Other changes in assets and liabilities	(338,793)	827,194	2,111,443
Net cash provided by operating activities	59,772,485	56,966,243	28,130,591
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(2,450,421)	(707,790)	(781,951)
Purchase of Company sponsored investments	(14,852,892)	(14,351,062)	(6,332,090)
Proceeds from sale of Company sponsored investments	25,715,013	48,637,779	2,853,144
Net cash on deconsolidation of Company sponsored investments	—	(22,723,853)	—
Net cash provided by (used in) investing activities	8,411,700	10,855,074	(4,260,897)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Value of shares withheld related to employee tax withholding	(1,947,456)	(1,390,482)	(1,925,700)
Payment of dividends	(37,976,714)	(30,275,867)	(28,094,564)
Net subscriptions (redemptions) received from redeemable noncontrolling interest holders	(4,311,084)	11,340,880	21,207,770
Repurchase of common stock	(18,646,982)	(38,749,654)	(7,229,249)
Net cash used in financing activities	(62,882,236)	(59,075,123)	(16,041,743)
CASH AND CASH EQUIVALENTS			
Net change during the year	5,301,949	8,746,194	7,827,951
At beginning of year	93,176,253	84,430,059	76,602,108
At end of year	$ 98,478,202	$ 93,176,253	$ 84,430,059
Supplemental cash flow information:			
Income taxes paid	$ 8,415,900	$ 24,227,006	$ 17,408,094
Supplemental disclosure of non-cash transactions:			
Common stock issued as incentive compensation	3,396,359	3,655,296	4,109,197
Charitable donation of corporate investments	—	—	1,989,803
Net (redemptions) subscriptions of ETF Shares for marketable securities	—	(3,244,940)	6,282,621

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. DHCM is also administrator for the Funds. The Company also provides investment advisory services to separately managed accounts and provides sub-advisory services to other mutual 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 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, 2020 and 2019, and results of operations for the years ended December 31, 2020, 2019 and 2018.

For further information regarding the risks to our business, refer to the consolidated financial statements and notes thereto included in "Part I – Item 1A. – Risk Factors" of this Annual Report on Form 10-K.

Use of Estimates

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 based on 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 an exchange traded fund (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 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, 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 (together, the "Consolidated Funds") as of December 31, 2020. 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, which is providing investment management and administration services to mutual funds and separately managed accounts. Therefore, the Company does not present disclosures relating to operating segments in annual or interim financial statements.

Cash and Cash Equivalents

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

Accounts Receivable

The Company records accounts receivable when they are due and presents them 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 individual or entity that owes the receivable. No allowance for doubtful accounts was deemed necessary at either December 31, 2020 or 2019. Accounts receivable from the Funds were $10.5 million and $10.7 million as of December 31, 2020 and 2019, respectively.

Investments

The Company's 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 that DHCM advises 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, capitalized software, furniture, and fixtures, are carried at cost less accumulated depreciation. Accumulated depreciation was $7.4 million and $6.4 million as of December 31, 2020 and 2019, respectively. Depreciation is calculated using the straight-line method over the estimated lives of the assets.

Revenue Recognition – General

The Company recognizes revenue when it satisfies performance obligations under the terms of a contract with a client. 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 performance-based fees.

Revenue earned for the years ended December 31, 2020, 2019 and 2018 under contracts with clients include:

	Year Ended December 31, 2020		
	Investment advisory	Mutual fund administration, net	Total revenue
Proprietary funds	$ 88,103,499	$ 7,262,488	$ 95,365,987
Sub-advised funds and separately managed accounts	31,021,731	—	31,021,731
	$ 119,125,230	$ 7,262,488	$ 126,387,718

	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
	$ 128,009,409	$ 8,614,971	$ 136,624,380

	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
	$ 135,317,805	$ 10,309,943	$ 145,627,748

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 the Company receives for its services under its 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 they are excluded from revenue until the AUM on which the Company's client is billed is no longer subject to market fluctuations.

The Company also provides services to model delivery programs in which the Company provides its strategy model portfolio to the sponsor of the model delivery. The Company is paid a portion of the model delivery fee for its services by the program sponsor at a pre-determined rate based on assets in the program. Model delivery program revenues were $2.7 million, $2.0 million and $1.5 million for the years ended December 31, 2020, 2019 and 2018, respectively. Model delivery program revenue is included in investment advisory fees in the consolidated statements of income.

Revenue Recognition – Performance-Based Fees

The Company manages certain client accounts that provide for performance-based fees. These fees are calculated based on client investment results over rolling five-year periods. The Company records performance-based fees at the end of the contract measurement period because the performance-based fees earned are constrained based on movements in the financial markets. During the years ended December 31, 2020, 2019, and 2018, the Company recorded $0.5 million, $1.3 million, and $1.4 million, respectively, in performance-based fees. The table below shows AUM subject to performance-based fees and the amount of performance-based fees that would be recognized based upon investment results as of December 31, 2020:

	As of December 31, 2020	
	AUM subject to performance-based fees	Unearned performance-based fees
Contractual Period Ending:		
Quarter Ending September 30, 2021	$ 339,721,553	$ 9,228,080
Quarter Ending December 31, 2021	60,887,198	—
Total	$ 400,608,751	$ 9,228,080

The contractual end dates highlight the time remaining until the performance-based fees are scheduled to be earned. The amount of performance-based fees that would be recognized based upon investments results as of December 31, 2020, will increase or decrease based on future client investment results through the contractual period end. The Company cannot assure that it will earn the unearned amounts set forth above.

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 DHCM's agreement with the Funds, all performance obligations to provide these administrative services are satisfied over time, and the Company recognizes the related revenue as time progresses. Each Fund pays DHCM a fee for performing these services, which is calculated using an annual rate times the average daily net assets of each respective Fund share class. These fees are thereby constrained and represent variable consideration, and they are excluded from revenue until the AUM on which DHCM bills 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 and pays for these services on behalf of the Funds. Each vendor is independently responsible for fulfillment of the services it has been engaged to provide and negotiates its fees and terms directly with the management and board of trustees of the Funds. Each year, the Funds' board of trustees reviews the fee that each Fund pays to DHCM, and specifically considers 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,		
	2020	2019	2018
Mutual fund administration:			
Administration revenue, gross	$ 22,296,535	$ 22,569,946	$ 24,463,538
Fund related expense	(15,048,850)	(13,989,139)	(14,183,370)
Revenue, net of related expenses	7,247,685	8,580,807	10,280,168
DHCM C-Share financing:			
Broker commission advance repayments	245,594	240,459	332,680
Broker commission amortization	(230,791)	(206,295)	(302,905)
Financing activity, net	14,803	34,164	29,775
Mutual fund administration revenue, net	$ 7,262,488	$ 8,614,971	$ 10,309,943

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 positions 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 unvested restricted shares. Diluted EPS reflects the dilutive effect of outstanding and unvested restricted stock units, if any. See Note 10.

Recently Adopted Accounting Guidance

In August 2018, FASB issued Accounting Standards Update ("ASU") No. 2018-13, "Fair Value Measurements." This update makes certain revisions to existing disclosure requirements for fair value measurement. ASU No. 2018-13 does not change fair value measurements already required or permitted by existing standards. ASU No. 2018-13 is effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company adopted this guidance on January 1, 2020, without any impact on the Company's consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-15 "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." This update required implementation costs incurred in cloud computing arrangements to be deferred and recognized over the term of the hosting arrangement. A hosting arrangement is an agreement that allows customers to access and use software on an as-needed basis without having possession of the software. Beginning on January 1, 2020, the Company was required to defer such qualifying implementation costs. As of December 31, 2020, the Company capitalized an immaterial amount of implementation costs incurred in a cloud computing arrangement. The Company adopted this guidance on January 1, 2020 using the prospective method of adoption. Accordingly, the adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Note 3 Investments

The following table summarizes the carrying value of the Company's investments as of December 31, 2020 and 2019:

	As of December 31, 2020	As of December 31, 2019
Fair value investments:		
Securities held in Consolidated Funds[(a)]	$ 33,233,307	$ 36,248,360
Company-sponsored investments	95,167,829	42,039,044
Company-sponsored equity method investments	—	61,149,774
Total Investments	$ 128,401,136	$ 139,437,178

(a) Of the securities held in the Consolidated Funds as of December 31, 2020, the Company directly held $23.6 million and non-controlling shareholders held $9.6 million. Of the securities held in the Consolidated Funds as of December 31, 2019, the Company directly held $21.1 million and non-controlling shareholders held $15.1 million.

As of December 31, 2020, securities held by the Company in the 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%.

As of December 31, 2019, securities held in the 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 de-consolidated 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%.

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

	For the Year Ended December 31,		
	2020	2019	2018
Realized gains (losses)	$ (1,488,059)	$ 9,056,152	$ 2,143,695
Unrealized gains (losses)	5,348,243	15,086,747	(16,067,048)
Dividend income	2,824,542	5,350,146	2,814,026
Interest income	—	987,240	4,857,261
Other investment income (loss)	(99,877)	27,090	(20,612)
Investment income (loss), net	$ 6,584,849	$ 30,507,375	$ (6,272,678)

Company-Sponsored Equity Method Investments

As of December 31, 2020, the Company had no equity method investments. During 2020, there were periods of time when the Company's ownership in the Diamond Hill Research Opportunities Fund[1] and the Diamond Hill Core Bond Fund was between 20% and 50%, respectively, and thus, a portion of these Funds' income is included in the table below for the year ended December 31, 2020.

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

For the year ended December 31, 2018, the Company's equity method investments consisted of the Diamond Hill Research Opportunities Fund, and the Company's ownership percentage in this investment was 28% as of December 31, 2018, and thus, that Fund's 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, 2020 and 2019, and for the years ended December 31, 2020, 2019, and 2018:

[1] In October 2020, the Diamond Hill Research Opportunities Fund merged into the Diamond Hill Long-Short Fund.

	As of December 31,	
	2020	2019
Total assets	$ —	$ 237,073,628
Total liabilities	—	38,453,935
Net assets	—	198,619,693
DHCM's portion of net assets	$ —	$ 61,149,774

	For the Year Ended December 31,		
	2020	2019	2018
Investment income	$ 4,246,021	$ 5,346,588	$ 1,154,007
Expenses	1,114,278	1,551,291	978,322
Net realized gains (losses)	(1,577,639)	6,390,727	1,918,661
Net change in unrealized appreciation (depreciation)	2,289,667	14,805,837	(10,229,319)
Net income (loss)	3,843,771	24,991,861	(8,134,973)
DHCM's portion of net income (loss)	$ 1,807,279	$ 8,301,571	$ (2,400,467)

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, 2020 and 2019:

December 31, 2020	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 94,698,816	$ —	$ —	$ 94,698,816
Fair value investments				
Securities held in Consolidated Funds[(a)]	17,641,668	15,591,639	—	33,233,307
Company-sponsored investments	95,167,829	—	—	95,167,829
December 31, 2019				
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

(a) Of the securities held in the Consolidated Funds as of December 31, 2020, the Company directly held $23.6 million and non-controlling shareholders held $9.6 million. Of the securities held in the Consolidated Funds as of December 31, 2019, the Company directly held $21.1 million and non-controlling shareholders held $15.1 million.

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, 2020, 2019, and 2018.

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 24, 2021, which 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 did not borrow under the Credit Agreement as of and for the period ended December 31, 2020.

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 customary representations, warranties, and covenants.

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 Company's 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 as of December 31, 2020 or 2019.

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, 2020, there were 222,657 common shares available for awards under the Plan. The Plan provides that the Company's board of directors, or a committee appointed by the Board, may grant awards and otherwise administer the Plan.

Share-Based Payment Transactions

The Company has issued restricted stock awards under the Plan. Restricted stock awards 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. Restricted stock grants issued under the Plan are recorded as compensation expense based on the grant date price. The following table represents a roll-forward of outstanding restricted stock and related activity during the year ended December 31, 2020:

	Shares	Weighted-Average Grant Date Price per Share
Outstanding Restricted Stock as of December 31, 2019	227,844	$ 175.49
Grants issued	22,099	115.32
Grants vested	(50,600)	160.79
Grants forfeited	(15,625)	185.90
Outstanding Restricted Stock as of December 31, 2020	183,718	$ 173.80

The weighted-average grant date price per share of Restricted Stock issued during the years ended December 31, 2019 and 2018 was $146.59 and $195.00, respectively. The total fair value of Restricted Stock vested, as of their respective vesting dates, during the years ended December 31, 2020, 2019, and 2018 was $5.2 million, $3.3 million, and $5.8 million, respectively.

Total deferred equity compensation related to unvested Restricted Stock grants was $14.7 million as of December 31, 2020. Compensation expense related to restricted stock is calculated based upon the fair market value of the common shares on the applicable 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:

2021	2022	2023	2024	2025	Thereafter	Total
$ 5,332,145	$ 4,375,573	$ 2,406,727	$ 1,308,272	$ 535,508	$ 789,893	$ 14,748,118

Stock Grant Transactions

The following table represents shares issued as part of the Company's incentive compensation program during the years ended December 31, 2020, 2019, and 2018:

	Shares Issued	Grant Date Value
December 31, 2020	23,640	$ 3,396,359
December 31, 2019	24,048	3,655,296
December 31, 2018	20,153	$ 4,109,197

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, 2020, 2019 and 2018:

	Shares Issued	Company Contribution
December 31, 2020	20,976	$ 2,511,746
December 31, 2019	17,651	2,496,936
December 31, 2018	11,967	$ 2,231,735

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 (together, the "Deferred Comp Plans"). Under the Deferred Comp Plans, participants may elect to voluntarily defer, for a minimum of five years, certain incentive compensation, which the Company then contributes into the Deferred Comp 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 in connection with the Plans. Assets held in the Deferred Comp 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 investments in the Deferred Comp Plans are recorded as deferred compensation expense (benefit) and are 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 $33.2 million and $30.3 million as of December 31, 2020 and 2019, respectively.

Note 8 Operating Leases

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

As of December 31, 2020 and 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 $2.1 million and $2.5 million, respectively. As of December 31, 2020 and 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 $2.5 million and $3.1 million, respectively.

The following table summarizes the total lease and the related operating expenses for the years ended December 31, 2020, 2019 and 2018:

For the year ended December 31,		
2020	2019	2018
$ 947,398	$ 971,203	$ 970,143

Lease expense 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:

	Future Minimum Lease Payments by Year					
Total	2021	2022	2023	2024	2025	Thereafter
$ 2,652,760	$ 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 2020, 2019, and 2018.

Note 9 Income Taxes

The provision for income taxes consists of:

	As of December 31, 2020	2019	2018
Current federal income tax provision	$ 9,633,927	$ 13,952,230	$ 15,731,258
Current state and local income tax provision	2,374,534	3,656,997	8,560,479
Deferred income tax expense (benefit)	1,949,407	1,079,247	(5,622,396)
Provision for income taxes	$ 13,957,868	$ 18,688,474	$ 18,669,341

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

	2020	2019	2018
Income tax computed at statutory rate	$ 10,945,831	$ 16,472,987	$ 13,646,583
Expense (benefit) attributable to redeemable noncontrolling interests[a]	104,035	(1,007,012)	222,624
State and local income taxes, net of federal benefit	1,875,882	2,835,215	2,993,730
Internal revenue code section 162 limitations	632,705	625,009	400,060
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)
Excess tax deficit (benefit) on vesting of restricted stock	612,930	(70,878)	(667,697)
Income tax benefit from dividends paid on restricted stock	(455,283)	(431,192)	(340,200)
Interest and penalties	1,460	101,010	786,711
Other	240,308	210,532	(437,519)
Income tax expense	$ 13,957,868	$ 18,688,474	$ 18,669,341

(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 additional state and local tax that the Company expects to pay in future tax periods.

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 as of December 31, 2020 and 2019:

	2020	2019
Stock-based compensation	$ 3,500,026	$ 4,571,430
Accrued compensation	9,026,113	8,496,929
Unrealized gains	(3,145,177)	(2,150,699)
Property and equipment	(963,610)	(553,265)
Other assets and liabilities	20,094	22,458
Net deferred tax assets	$ 8,437,446	$ 10,386,853

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, 2020, 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, 2016 through 2020. During 2020, the Company closed an examination by the California Franchise Tax Board for the Company's 2015 and 2016 tax years. 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 amount of uncertain tax positions as of December 31, 2020, 2019, and 2018, 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:

	2020	2019	2018
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	$ —	$ —	$ 2,982,337

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 for uncertain tax positions were recognized in the year ended December 31, 2020.

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,		
	2020	2019	2018
Net Income	$ 38,165,138	$ 59,754,319	$ 46,314,388
Less: Net loss (income) attributable to redeemable noncontrolling interest	495,407	(4,795,295)	1,061,441
Net income attributable to common shareholders	$ 38,660,545	$ 54,959,024	$ 47,375,829
Weighted average number of outstanding shares	3,214,564	3,436,574	3,512,470
Dilutive impact of restricted stock units	—	67	2,058
Weighted average number of outstanding shares - Diluted	3,214,564	3,436,641	3,514,528
Earnings per share attributable to common shareholders			
Basic	$ 12.03	$ 15.99	$ 13.49
Diluted	$ 12.03	$ 15.99	$ 13.48

Note 11 Commitments and Contingencies

The Company indemnifies its directors, officers and certain employees for certain liabilities that may arise from 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 that provide general indemnification obligations. 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 of these liabilities.

Note 12 Subsequent Events

Asset Purchase Agreement

DHCM entered into an asset purchase agreement dated February 2, 2021 (the "Agreement") with Brandywine Global Investment Management, LLC ("Brandywine Global"), a specialist investment manager of Franklin Resources, Inc., pursuant to which Brandywine Global will acquire the businesses of Diamond Hill's two high yield-focused mutual funds - the Corporate Credit Fund and the High Yield Fund (the "Acquired Funds").

In connection with the transaction, two of the Company's portfolio managers and a research analyst will join Brandywine Global's fixed income team.

Pursuant to the Agreement, DHCM will receive an initial cash payment at closing of up to $9.0 million based upon the closing date net revenue of the Acquired Funds, and may receive two additional payments of up to $13.0 million in the aggregate based on the net revenue of the Acquired Funds on the one-year anniversary of the closing date. There can be no assurance that all or any of these additional payment amounts will be received by DHCM.

The Agreement contains customary representations, warranties and covenants and is subject to customary closing conditions, including a minimum net revenue requirement as of the closing date and approval by the shareholders of the Acquired Funds. The sale is expected to close in the second quarter of 2021, subject to approval of each of the Acquired Fund's shareholders.

Dividends

On February 25, 2021, the Company's board of directors approved a quarterly cash dividend of $1.00 per share, payable on March 19, 2021, to shareholders of record as of March 11, 2021.

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, 2020 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

The Company's management 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, 2020 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, 2020.

The Company's independent registered public accounting firm, KPMG LLP, has audited the Company's 2020 and 2019 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, 2020, 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 2021 annual meeting of shareholders, which will be filed with the SEC no later than 120 days after December 31, 2020, pursuant to Regulation 14A of the Exchange Act (the "2021 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 2021 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 Shareholder Matters

The following table sets forth certain information concerning our equity compensation plans at December 31, 2020:

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	—	$ —	222,657 [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 2021 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 2021 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 2021 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 (Incorporated by reference from Exhibit 4.1 to the Annual Report on Form 10-K filed on February 27, 2020; file No. 000-24498)
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*	Diamond Hill Investment Group, Inc. Compensation Recoupment and Restitution Policy. (Incorporated by reference from Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the SEC on April 27, 2020; File No. 000-24498.)
10.6*	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.)
10.7*	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.)
10.8*	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.)
10.9*	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.)
10.10*	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.)
10.11*	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).
10.12*	Diamond Hill Investment Group, Inc. Employee Stock Purchase Plan (Incorporated by reference from Exhibit 10.3 to the Quarterly Report on Form 10-Q filed with the SEC on October 27, 2020; File No. 000-24498.)

14.1	Amended Code of Business Conduct and Ethics. (Incorporated by reference from Exhibit 14.1 to the Annual Report on Form 10-K filed with the SEC on February 27, 2020; File No. 000-24498.)
21.1	Subsidiaries of the Company. (Filed herewith)
23.1	Consent of Independent Registered Public Accounting Firm, KPMG LLP. (Filed herewith)
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a). (Filed herewith)
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a). (Filed herewith)
32.1	Section 1350 Certifications. (Furnished herewith)
101.ins	XBRL Instance Document.
101.sch	XBRL Taxonomy Extension Schema Document.
101.cal	XBRL Taxonomy Extension Calculation Linkbase Document.
101.def	XBRL Taxonomy Extension Definition Linkbase Document.
101.lab	XBRL Taxonomy Extension Label Linkbase Document.
101.pre	XBRL Taxonomy Extension Presentation Linkbase Document.

* Denotes management contract or compensatory plan or arrangement.

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

(c) Financial Statement Schedules: None required.

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, as amended, 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 25, 2021

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

Signature	Title	Date
/s/ Heather E. Brilliant Heather E. Brilliant	Chief Executive Officer and President	February 25, 2021
/s/ Thomas E. Line Thomas E. Line	Chief Financial Officer and Treasurer	February 25, 2021
/s/ Jeffrey J. Cook Jeffrey J. Cook	Controller	February 25, 2021
Richard S. Cooley* Richard S. Cooley	Director	February 25, 2021
Randolph J. Fortener* Randolph J. Fortener	Director	February 25, 2021
James F. Laird* James F. Laird	Director	February 25, 2021
Paula R. Meyer* Paula R. Meyer	Director	February 25, 2021
Bradley C. Shoup* Bradley C. Shoup	Director	February 25, 2021
Nicole R. St. Pierre* Nicole R. St. Pierre	Director	February 25, 2021

* By /s/ Thomas E. Line

Thomas E. Line

Executed by Thomas E. Line

on behalf of those indicated pursuant to Powers of Attorney

Investor Information

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

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

Shareholder Information
The Transfer Agent for Diamond Hill is Equiniti Trust Company. Shareholders who wish to transfer their stock or change the name in which the shares are registered should contact:

Equiniti Trust Company
PO Box 64874
St. Paul, MN 55164-0874
800.401.1957

Independent Registered Public Accountants
KPMG LLP
Columbus, OH

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

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

325 John H. McConnell Blvd., Suite 200
Columbus, OH 43215
614.255.333
info@diamond-hill.com

Legal Counsel
Vorys, Sater, Seymour and Pease LLP
Columbus, OH

www.diamond-hill.com

DIAMOND HILL INVESTMENT GROUP