



Diamond Hill Capital Management, Inc.  
Form ADV Part 2A – Disclosure Brochure  
March 18, 2014

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This brochure provides information about the qualifications and business practices of Diamond Hill Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at 614-255-3333. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Diamond Hill Capital Management, Inc. is registered with the SEC as an investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about Diamond Hill Capital Management, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2. Material Changes**

This Item describes only material changes made to this Brochure since its last annual update made on March 15, 2013:

In Item 12 (Brokerage Practices), we describe our intended use of Client Commission Arrangements (“CCAs”) consistent with Section 28(e) of the Exchange Act of 1934. We have also expanded our discussion to include more information about our trading practices.

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## **Item 4. Advisory Business**

### **THE COMPANY**

Diamond Hill Capital Management, Inc. (“Diamond Hill” or “the firm” or “we”) is a wholly owned subsidiary of Diamond Hill Investment Group, Inc. (“DHIL”, “the parent” or “the parent company”), a publicly traded company listed on NASDAQ and trading under the symbol DHIL.

The firm registered as an investment adviser with the SEC on June 2, 1988, and the parent was incorporated on April 18, 1990. The parent was taken public in 1993 under the name Banc Stock Group. In 2000, the parent changed its name to Diamond Hill Investment Group, Inc. as part of a reorganization intended to create an investment management focused firm.

As of December 31, 2013, employees and directors of DHIL and its affiliates owned approximately 30% of the shares outstanding, while non-affiliated investors owned the remaining 70% of the shares. As a publicly traded company, the ownership percentage changes on a regular basis.

### **INVESTMENT SERVICES**

Diamond Hill provides investment management services to individual and institutional investors, through mutual funds, separate accounts, and private investment funds. Diamond Hill offers nine equity investment strategies and one fixed income investment strategy. (Item 8 provides more information about our investment strategies.). We do not provide financial planning services, and we do not advise our clients in the selection of other investment advisers or mutual funds not managed by Diamond Hill. Our clients choose one of our ten investment strategies to meet their needs. Upon request, Diamond Hill will work with clients to accommodate client-specific restrictions on any of our investment strategies.

Our portfolio strategies may include, and our investment advice is limited to, investments in common stocks, preferred stocks, investment-grade and non-investment grade corporate bonds (including private placements), U.S. Government and agency securities, convertible securities (including stocks and convertible corporate bonds), real estate investment trusts, structured instruments, open and closed-end investment companies, hedge funds and master limited partnerships.

## **WRAP FEE PROGRAMS**

Diamond Hill participates as an investment adviser in one or more wrap fee programs that are offered by third-party wrap program sponsors (typically broker-dealers). A wrap fee program is an investment advisory program under which a client typically pays a single fee to the sponsor based on assets under management. Fees paid are not based directly upon transactions in the client's account or the execution of client transactions. Wrap fee program clients typically select Diamond Hill from a list of investment advisers presented to clients by registered representatives of the sponsor. Wrap fee program clients are typically high net worth individuals. The program sponsor has primary responsibility for client communications and service, and Diamond Hill provides investment management services to the clients. The program sponsor typically executes client's portfolio transactions, and in most cases, provides custodial services for the client's assets for a single fee paid by the client to the sponsor. Diamond Hill is paid a portion of the wrap fee (management fee) for its services by the program sponsor. When we report the number of clients that Diamond Hill provides investment management services to, we generally consider the wrap sponsor as a client instead of the underlying wrap fee program client accounts. Wrap fee accounts are considered directed brokerage accounts. (Item 12 provides more information about our brokerage practices, including our treatment of directed brokerage accounts.).

## **ASSETS UNDER MANAGEMENT**

As of December 31, 2013, Diamond Hill had \$12.2 billion in assets under management. All of these assets were discretionary assets.

## Item 5. Fees and Compensation

### SEPARATE ACCOUNTS

Our fees for separate accounts are based on the value that we expect to add over rolling five-year periods and will vary by investment strategy. Unless otherwise agreed to, the fees for our separate accounts are payable quarterly in arrears and are calculated based on the value of the assets in the account at the end of each calendar quarter. Diamond Hill provides clients fee invoices which contain the amount of the fee, the value of the assets in the account on which the fee was based, and the specific manner in which the fee was calculated. Fees for partial periods are pro-rated. Below are our standard fee schedules:

SEPARATE ACCOUNTS				
Tier	Small Cap	Small-Mid Cap	Mid Cap	Select
First \$20 million	1.00%	0.95%	0.80%	0.85%
Above \$20 million	0.80%	0.75%	0.65%	0.70%
Minimum Account Size	\$10 million	\$5 million	\$5 million	\$5 million
Minimum Fee	\$60,000	\$40,000	\$40,000	\$40,000

SEPARATE ACCOUNTS			
Tier	Large Cap	Large Cap Concentrated	Strategic Income
First \$20 million	0.65%	0.70%	0.55%
Above \$20 million	0.55%	0.60%	0.50%
Minimum Account Size	\$10 million	\$10 million	\$10 million
Minimum Fee	\$60,000	\$60,000	\$60,000

(Item 8 provides a description of the investment strategies that are available as a separate account.).

Diamond Hill reserves the right to negotiate fees. Some clients pay more or less than others depending on certain factors, including but not limited to, the type and size of the account, the range of additional services provided to the client, and the total amount of assets managed for a single client. Additionally, some clients pay us a performance-based advisory fee. (Item 6 provides more information about performance-based fee). The fees that we charge for investment advisory services are specified in an agreement between Diamond Hill and each individual client.

### MUTUAL FUNDS

The investment advisory and administration fees that Diamond Hill receives as a service provider to the Diamond Hill Funds are described in the registration statements and financial filings of those funds. (Item 10 provides more information about Diamond Hill's involvement with the Diamond Hill Funds.).

### PRIVATE INVESTMENT FUNDS

The private investment funds pay Diamond Hill either a management fee or a management fee and a performance-based advisory fee. These fees are described in the investment management

and investment advisory agreements between Diamond Hill and each of the funds. (Item 6 provides more information about performance-based fees, and Item 10 provides more information about our private investment funds.).

## **OTHER FEES OR EXPENSES**

Clients may pay other expenses in addition to the fees paid to Diamond Hill. For example, clients may pay costs such as brokerage commissions, transaction fees, custodial fees, transfer taxes, wire transfer fees, and other fees and taxes charged to brokerage accounts and securities transactions, which are unrelated to the fees collected by Diamond Hill. (Item 12 provides more information on our brokerage practices.).

Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus and/or financial filings. To avoid the duplication of fees and the potential conflicts of interest, we do not charge separate accounts a direct advisory fee on assets invested in the Diamond Hill Funds or the private investment funds. Fees for client assets invested in Diamond Hill Funds or the private investment funds are charged by the respective fund and reflected in the value of your investment.

## **ADDITIONAL COMPENSATION**

Diamond Hill and its employees do not accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

## **Item 6: Performance-Based Fees and Side-By-Side Management**

We may receive performance-based fees from our private investment funds and separate accounts. We will consider performance-based fee arrangements for separate accounts with greater than \$25 million in assets.<sup>1</sup>

### **POTENTIAL CONFLICTS OF INTEREST**

The receipt of performance-based fees from separate accounts or our private investment funds creates conflicts of interest. Diamond Hill can potentially receive higher fees from accounts with a performance-based compensation structure than from those accounts that pay an asset-based fee as described in Item 5. For example, Diamond Hill may have an incentive to direct the best investment ideas to an account that pays a performance-based fee or to allocate or sequence trades in favor of the performance fee account. To manage these potential conflicts:

- All accounts within a strategy are managed to the strategy's model portfolio.
- Diamond Hill performs a periodic review of each investment strategy's model portfolio versus each client account. In this review, every position size for each client account is compared to our model weights. In addition, portfolios are monitored by our compliance department for consistency with client objectives and restrictions.
- Diamond Hill has implemented policies whereby portfolio manager incentive compensation is based solely upon the performance of the respective strategy that they manage. This policy is intended to incent portfolio managers to act in the best interests of all clients regardless of their fee type.
- Diamond Hill has trade allocation policies and procedures designed to ensure that all clients are treated fairly and equally and to prevent this conflict from influencing the allocation of investment opportunities among clients.

Diamond Hill has another potential conflict of interest, as an adviser to both long-only accounts and accounts that execute short sales. We could sell short securities in a long-short account while causing long-only accounts to hold the same security long. In this case, we could harm the performance of the long-only accounts for the benefit of accounts that execute short sales, which may include performance-based fee accounts. For example, continually selling a position short may depress the stock price which could harm a long-only account if it holds the same security. To manage this conflict, Diamond Hill has a specific policy that prohibits a short position from being held as a long position in any actively managed<sup>2</sup> client account. However, one of Diamond Hill's private investment funds, the Diamond Hill Valuation-Weighted 500, L.P., may hold a long position, while another client account holds that same security as a short position. The investment mandate for the Diamond Hill Valuation-Weighted 500, L.P. requires the fund to hold securities of approximately five hundred different companies.

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<sup>1</sup> A performance-based fee is an advisory fee based on a percent of capital gains on or capital appreciation of client assets. Performance-based fees paid to investment advisers may be significantly higher than the asset-based fees paid on traditional accounts.

<sup>2</sup> All of our strategies listed under Item 8 are considered actively managed. Item 8 also contains a description of our actively managed approach.



## **Item 7: Types of Clients**

Diamond Hill provides investment management services to a wide variety of institutional and other clients, including registered investment companies, private investment funds, financial institutions, financial intermediaries, annuity funds, pooled investment vehicles, charitable institutions, high net worth investors, foundations, trusts, state and municipal government entities, endowment funds, insurance companies, corporations, corporate pension and profit-sharing plans, and Taft-Hartley plans.

The minimum account size for a Small-Mid Cap, Mid Cap, or Select separate account is \$5 million. Minimum account size for a Small Cap, Large Cap, Large Cap Concentrated, or Strategic Income separate account is \$10 million. Diamond Hill, however, may agree to manage separate accounts below our stated minimum account size. (Item 5 provides a discussion of advisory fees for separate accounts.).

Diamond Hill also offers investment advisory services to the clients of wrap sponsors. In accounts introduced to Diamond Hill by a wrap sponsor, the client either enters into agreements directly with both Diamond Hill and the sponsor, or enters into an agreement solely with the sponsor or another entity that has an agreement with the sponsor. (Item 4 provides a discussion on wrap fee programs.).

## Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

### DIAMOND HILL INVESTMENT STRATEGIES

We offer nine equity investment strategies and one fixed income investment strategy:

#### Equity Strategies

***Small Cap Strategy*** – Invests in securities of small capitalization companies selling at prices below our estimate of intrinsic value.

***Small-Mid Cap Strategy*** – Invests in securities of small and medium capitalization companies selling at prices below our estimate of intrinsic value.

***Mid Cap Strategy*** – Invests in securities of medium capitalization companies selling at prices below our estimate of intrinsic value.

***Large Cap Strategy*** – Invests in securities of large capitalization companies selling at prices below our estimate of intrinsic value.

***Large Cap Concentrated Strategy*** – Invests in a concentrated portfolio of securities derived from the holdings in the Large Cap strategy selling at prices below our estimate of intrinsic value. Typically, the Large Cap Concentrated holdings represent the largest weights in the Large Cap strategy; however, for diversification and other reasons, they may not be the top positions in order of magnitude.

***Select Strategy*** – Invests in a concentrated portfolio of securities of companies across the market capitalization spectrum selling at prices below our estimate of intrinsic value. We anticipate that each of the Select strategy's investments will also be held in the Large Cap, Mid Cap, Small-Mid Cap, Small Cap, or Research Opportunities strategies.

***Long-Short Strategy*** – Seeks to buy long or sell short securities of companies at prices below or above our estimate of intrinsic value.<sup>3</sup>

***Research Opportunities Strategy*** – Seeks to buy long or sell short securities of companies at prices below or above our estimate of intrinsic value.<sup>3</sup>

***Financial Long-Short Strategy*** – Seeks to buy long or sell short securities financial services companies selling at prices below or above our estimate of intrinsic value.<sup>3</sup>

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<sup>3</sup> The Long-Short Strategy is generally available to investors only through the Diamond Hill Long-Short Fund and, to qualified investors, through the private investment funds. The Research Opportunities Strategy is available to investors only through the Diamond Hill Research Opportunities Fund. The Financial Long-Short Strategy is available to investors only through the Diamond Hill Financial Long-Short Fund.

## Fixed Income Strategy

**Strategic Income Strategy** – Seeks to provide high current income, preservation of capital, and total return over a five-year time horizon by investing primarily in investment grade and below-investment grade corporate bonds. Securities are purchased when we believe the yield and total return potential are attractive relative to asset and interest coverage and relative to other securities with comparable risk.

## EQUITY INVESTING

The following are the guiding principles for our investment philosophy:

- **Treat every investment as a partial ownership interest in that company.**  
Investing is most intelligent when it is viewed through the lens of an owner.
- **Always invest with a margin of safety.**  
Our discipline is to purchase (sell short) securities at a sufficient discount (premium) to our estimate of intrinsic value. We estimate the intrinsic value of the business independent of the current stock market price then compare our estimate to the price to determine if an opportunity exists. When we successfully identify securities trading below (above) our estimate of intrinsic value, it increases potential reward and serves as the most effective risk control.
- **Possess a long-term investment temperament.**  
In the short term, emotion as much as economic fundamentals drives market prices. Over time, the economic performance of the business and the price paid, versus the market, will determine investment return.
- **Recognize that market price and intrinsic value tend to converge over a reasonable period of time.**  
Investment opportunity lies in the ability to buy (or short), when the current market price does not reflect a company's intrinsic value, and to sell (or cover) when price and value converge.

Investing in securities always involves the risk of loss that investors should understand and be prepared to bear.

Our investment strategy is actively managed and intrinsic value focused. Bottom-up analysis is of primary importance. We use a discounted cash flow methodology to estimate intrinsic value and then compare our estimate to the current market price. Our portfolios are differentiated by the fact that we manage independent of benchmark weights.

Our valuation approach is based on a five-year discounted cash flow methodology for both long and short positions. This methodology is used to determine whether there is a discrepancy between the current market price and our estimate of intrinsic value.

To forecast the amount and timing of a company's cash flows, we concentrate on the fundamental economic drivers of the business. We evaluate all publicly available material information that may aid us in forecasting future cash flows. Considerations include: industry competition, regulatory factors, the threat of technological obsolescence, and a variety of other factors. Other fundamental factors we use to estimate intrinsic value may include: assumptions for current

normalized earnings; revenue growth; terminal operating margin; terminal P/E multiple; and required rate of return.

Our investment team consists of portfolio managers, research analysts and research associates. Research team members focus on a specific sector or a few industries, while our portfolio managers are generalists. Portfolio managers also function as analysts for all of our portfolios. Similar to the research analysts, the portfolio managers of other Diamond Hill strategies may make recommendations in their role as analyst.

The research group is organized by sector teams, with one or two people serving as sector leader(s) within each team. Each sector team has a dedicated portfolio manager who works closely with the team, providing a link between the research and portfolio management functions, a mentor for research analysts and associates, and an additional source of broad sector and industry knowledge.

Portfolio managers are responsible for investment decision-making, including asset allocation, security selection, portfolio construction, and portfolio risk management. Since we place high value on independent thought, the portfolio managers are ultimately accountable for the strategy results and are not subordinate to an investment committee. Assistant portfolio managers provide significant analytical support and serve as a backup to the portfolio manager. If a portfolio manager is unavailable, assistant portfolio managers have the authority to make investment decisions.

We regularly compare market price to our estimate of intrinsic value for every holding or short position. We will sell a holding (cover a short position) under the following circumstances:

- If the market price reaches our estimate of intrinsic value, we examine all model assumptions. Unless there is justification to adjust our assumptions, we will exit the position.
- If our estimate of intrinsic value is lowered (raised) due to a change in the fundamentals, such that the current market price is no longer at a discount (premium) to our estimate of intrinsic value, we will exit the position.
- If a more attractive investment opportunity is identified, we may sell (cover) a holding to raise proceeds.
- If a holding's position size reaches our stated limit of the portfolio at market, we reduce the position. Typically, we trim a position as it approaches the limit, rather than allowing it to exceed the limit.

We manage risk through our intrinsic value-focused investment philosophy and disciplined investment process. Portfolio managers are ultimately accountable for managing risk in a portfolio. By focusing stock selection on securities selling at discounts (or premiums if selling short) to our estimates of intrinsic value, we believe we have a built in "margin of safety." Thus, our primary risk control is to compare current market prices regularly to our estimates of intrinsic value.

To limit downside risk, we diversify portfolios by managing sector, industry, and position weights according to the following general guidelines:

- For long positions, an individual security cannot be more than 7% (10% for the Large Cap Concentrated strategy and Financial Long-Short strategy) of the portfolio at market.

- For short positions, an individual security cannot be more than 3% of the portfolio at market.
- Maximum exposure to any one industry is limited to 20% (25% for the Large Cap Concentrated strategy) of the portfolio at market.
- Maximum exposure to any one sector is limited to 30% (35% for the Large Cap Concentrated strategy) of the portfolio at market.

## Equity Risks

The material risks associated with these strategies are:

**Equity Market Risk** – Overall stock market risks may affect the value of the investments in equity strategies. Factors such as U.S. economic growth and market conditions, interest rates, and political events affect the equity markets.

**Management Risk** – Our judgments about the attractiveness, value and potential appreciation of a particular asset class or individual security may be incorrect and there is no guarantee that individual securities will perform as anticipated. The value of an individual security can be more volatile than the market as a whole or our intrinsic value approach may fail to produce the intended results. Our estimate of intrinsic value may be wrong or even if our estimate of intrinsic value is correct, it may take a long period of time before the price and intrinsic value converge.

**Small and Mid Cap Company Risk** – Investments in small and medium capitalization companies may be riskier than investments in larger, more established companies. The securities of these companies may trade less frequently and in smaller volumes than securities of larger companies. In addition, small and medium capitalization companies may be more vulnerable to economic, market and industry changes. Because smaller companies may have limited product lines, markets or financial resources, or may depend on a few key employees, they may be more susceptible to particular economic events or competitive factors than larger capitalization companies.

**Concentration Risk** – Some strategies concentrate their investments in a small number of securities to create a reasonably diversified equity portfolio. The small number of securities held may not be diversified across all sectors or industries as compared to a broad index, such as the S&P 500 or Russell 3000 Indices. The value of a client account will vary considerably in response to changes in the market value of individual securities, industries, or sectors. This may result in higher volatility.

**Short Sale Risk** – Short sales are speculative transactions and involve special risks. In order to initiate a short position, a security must be borrowed. Strategies that execute short sales may incur a loss if the price of the security sold short increases in value between the date of the short sale and the date when we purchase the security to replace the borrowed security. Losses are potentially unlimited in a short sale transaction.

## FIXED INCOME INVESTING

The Strategic Income strategy primarily invests in investment grade and below-investment grade (high yield) corporate bonds, including a significant allocation to defensive high yield corporate bonds (due to low duration and higher credit quality). We define defensive high yield corporate bonds as bonds that are callable within three years or have maturity dates within three years and

a yield-to-worst below 5%. Under normal circumstances the strategy has an effective duration of less than five. Our primary focus is on valuing the underlying business and the associated credit risk, rather than interest rate risk. We manage our Strategic Income strategy with a five-year time horizon.

Our objectives are to generate an attractive cash distribution in excess of the current rate of inflation and an attractive total return, while minimizing the risk of a permanent loss of capital over a five-year time horizon. We expect to achieve our return objective by investing in corporate bonds when we believe the market price discounts a greater risk of default or a greater loss upon default than is warranted. An additional source of return exists when the market price provides attractive compensation for short-term illiquidity or volatility, both of which are of less concern to a long-term investor.

Our core competency is the evaluation of credit risk. As a result, we typically favor lower duration, shorter maturity corporate bonds. We focus almost entirely on the secondary market for corporate bonds rather than the primary (new issue) market.

We leverage the industry analysis conducted by our research team to identify attractive corporate bonds. Our business analysis focuses on the fundamental economic drivers of the business. We seek to invest in corporate bonds of companies with improving competitive positions and return on invested capital. After the credit research is complete, the portfolio manager determines whether a security is attractive on a yield basis relative to asset and interest coverage and relative to other securities with comparable risk. Financial metrics are reviewed in comparison to other available credits. The expected return and yield are also considered in comparison to expected returns and relative value across companies, industries, and the capital structure.

The portfolio manager is responsible for investment decision-making, including asset allocation, security selection, portfolio construction, and portfolio risk management. Since we place high value on independent thought, the portfolio manager is ultimately accountable for the strategy results and is not subordinate to an investment committee. Assistant portfolio managers provide significant analytical support and serve as a backup to the portfolio manager. If the portfolio manager is unavailable, assistant portfolio managers have the authority to make investment decisions.

We sell securities when they no longer offer an attractive risk-reward trade off or to acquire relatively more attractive securities. Securities are generally held until they mature or are called.

Controls are in place to limit downside risk and potential loss. We diversify portfolios by managing sector, industry and position weights according to the following guidelines:

- Securities of an individual corporate issuer cannot be more than 10% of the portfolio at market.
- Maximum exposure to any one industry is limited to 25% of the portfolio at market.
- Maximum exposure to any one sector is limited to 55% of the portfolio at market.

## **Fixed Income Risks**

The material risks associated with this strategy are:

**Fixed Income Market Risk** – Fixed income securities increase or decrease in value based on changes in interest rates. If rates increase, the value of fixed income securities generally declines. On the other hand, if rates fall, the value of the fixed income securities generally increases.

**Management Risk** – Our judgments about the attractiveness, value, and potential appreciation of a particular asset class or individual security may be incorrect and there is no guarantee that individual securities will perform as anticipated. The value of an individual security can be more volatile than the market as a whole, and our intrinsic value approach may fail to produce the intended results.

**Credit Risk** – There is a risk that issuers and counterparties will not make payments on the securities they issue. In addition, the credit quality of securities may be lowered if an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security which may affect liquidity and our ability to sell the security.

**Inflation Risk** – Because inflation reduces the purchasing power of income produced by existing fixed income securities, the prices at which fixed income securities trade will be reduced to compensate for the fact that the income they produce is worth less. This potential decrease in market value would be the measure of inflation risk.

**High Yield Risk** – The strategy utilizes fixed income securities rated below investment grade category. Securities in this rating are speculative. Changes in economic conditions or other circumstances may have a greater effect on the ability of issuers of these securities to make principal and interest payments than they do on issuers of higher grade securities. Based on measures such as dealer inventories and average trade size, the high yield market has become less liquid at the same time as it has grown markedly and become more concentrated under the control of the largest investors. During future periods of market stress, liquidity conditions in the high yield market may be even worse than prior periods of market stress.

## **Item 9. Disciplinary History**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of firm or the integrity of the firm's management in this item.

Diamond Hill has no legal or disciplinary events to report.<sup>4</sup>

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<sup>4</sup> We note that registered advisers are required to report all disciplinary events regardless of whether they are material in Part 1A of Form ADV. Diamond Hill has no disciplinary events of any kind to report.



## **Item 10. Other Financial Industry Activities & Affiliations**

As noted in Item 4, Diamond Hill is a wholly owned subsidiary of Diamond Hill Investment Group, Inc. Diamond Hill Investment Group, Inc. is also the parent company of:

- Beacon Hill Fund Services, Inc. (“Beacon Hill”).
- BHIL Distributors, Inc. (“BHIL”).

Beacon Hill provides compliance, treasury and other fund administration services to mutual fund companies. Beacon Hill provides these services to the Diamond Hill Funds.

BHIL is a wholly owned subsidiary of Beacon Hill. BHIL is a limited purpose broker/dealer that provides statutory underwriting services to mutual fund companies, including the Diamond Hill Funds. Diamond Hill does not execute transactions for any of its clients through BHIL.

Certain persons listed in Schedule A of Diamond Hill’s Part 1 of Form ADV and other employees are registered representatives of BHIL and hold FINRA licenses but do not receive any compensation from BHIL.

### **MUTUAL FUNDS**

Diamond Hill serves as the investment adviser and administrator to the Diamond Hill Funds, an open-end registered investment company. Certain persons listed in Schedule A of Diamond Hill’s Part 1 of Form ADV are Officers of the Diamond Hill Funds. As Officers, these persons are involved in the day-to-day management of the Diamond Hill Funds. In order to avoid any potential conflicts of interests, these persons are subject to Diamond Hill’s Code of Ethics and are supervised by an independent Board of Trustees.

In addition, the following services are supervised by the Board of Trustees of the Diamond Hill Funds:

- The advisory services and the administrative services agreements between Diamond Hill and the Diamond Hill Funds
- The underwriting agreement between BHIL and the Diamond Hill Funds

Diamond Hill does not believe these services create material conflicts of interest between Diamond Hill and its other clients.

Diamond Hill also serves as a sub-adviser to other mutual funds.

## **PRIVATE INVESTMENT FUNDS**

Diamond Hill is also the Managing Member of Diamond Hill General Partner, LLC. Diamond Hill General Partner, LLC is the general partner of Diamond Hill Investment Partners, L.P., Diamond Hill Valuation-Weighted 500, L.P., and Diamond Hill Global Fund, L.P. Collectively, these funds are referred to as “private investment funds.”<sup>5</sup> (Items 5 and 6 provide more information relating to the private investment funds.).

## **SOLICITOR FEES**

Diamond Hill may enter into an agreement with a broker-dealer or registered investment adviser in which Diamond Hill pays a set percentage of its management fee and/or performance-based fee to the referring broker-dealer or registered investment adviser. These arrangements, often referred to as Solicitor’s Agreements, are more specifically discussed in Item 14.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **CODE OF ETHICS & PERSONAL TRADING**

Diamond Hill has adopted a Code of Ethics for all employees of the firm describing our high standards of business conduct, fiduciary duty to our clients, and rules surrounding personal securities trading by our employees.

The Code of Ethics prohibits employees from purchasing individual securities that are also eligible to be held in one of our funds or client portfolios and from purchasing non-Diamond Hill mutual funds that invest primarily in U.S. equity securities. As a result of these prohibitions, substantially all of our employees’ equity investments are in the Diamond Hill Funds.

The Code of Ethics also includes guidelines related to gifts and to the reporting of personal securities holdings and trading activity. All Diamond Hill employees must accept in writing the terms of the Code of Ethics upon employment, annually, or as amended.

Diamond Hill clients or prospective clients may request a copy of the firm’s Code of Ethics by contacting the firm’s Chief Compliance Officer, Mr. Gary Young, at 614-255-3333.

### **PARTICIPATION IN CLIENT TRANSACTIONS**

Diamond Hill recommends to its clients the purchase or sale of our private investment funds. (Item 10 provides a discussion of our private investment funds.). Diamond Hill could earn a management fee or both a management fee and a performance-based fee on the private investment funds. (Items 5 and 6 provide more information about these fees.).

Diamond Hill recommends to its clients the purchase or sale of Diamond Hill Funds. Diamond Hill serves as the investment adviser and administrator for and receives fees from the Diamond Hill Funds.

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<sup>5</sup> Private investment funds are often referred to as hedge funds and are only offered on a private placement basis to accredited or qualified investors. As discussed in Items 5 and 6, Diamond Hill could earn either a management fee or both a management fee and a performance-based incentive fee on the private investment funds.

Therefore, potential conflicts of interest exist. To avoid the duplication of fees and the potential for conflicts of interest, we do not charge an advisory fee to clients on their assets which are invested in the Diamond Hill Funds or the private investment funds.

A portion of Diamond Hill's corporate investment portfolio may be invested in mutual funds or in private investment funds for which Diamond Hill serves as investment adviser, administrator, general partner, or manager. Employees may also own interests in the private investment funds and Diamond Hill Funds. We do not believe that these investments cause a conflict of interest between Diamond Hill and its advisory clients. Diamond Hill does not invest its corporate investment portfolio in any individual securities which are eligible to be held in one of our funds or client portfolios.

## **TRADE ERRORS**

There are two potential types of trade errors, those that are detected after the trade has settled and those that are detected prior to trade settlement. We correct all trade errors so that the client does not suffer a loss and is not harmed.

Trade errors that are detected after the trade has settled in a client account are considered "Client Account Trade Errors." For Client Account Trade Errors where Diamond Hill is determined to be at fault or where no fault can be determined, Diamond Hill will pay any losses resulting from the error. If it is determined that the client is at fault, Diamond Hill may, in its discretion, pay the loss or charge the loss (in whole or in part) to the client. Net gains incurred when correcting a Client Account Trade Error will be retained by the client.

Trade errors that are detected prior to settlement in a client account are considered "Adviser Account Trade Errors." Diamond Hill will correct Adviser Account Trade Errors, and any correcting trade, into a separate error account. Net gains realized on a correcting trade will be retained by Diamond Hill and net losses incurred on a correcting trade will be paid by Diamond Hill. Net gains may be retained in the error account and used to offset future net losses.

## **Item 12: Brokerage Practices**

### **BROKER SELECTION & BEST EXECUTION**

In most arrangements, Diamond Hill has the authority to make all determinations as to securities to be bought and sold, the amounts of the securities bought or sold, the broker-dealer to be used, and commissions and other fees to be paid. As part of its discretionary responsibilities, in executing trades on behalf of clients, Diamond Hill seeks best execution under the circumstances of each trade. Clients may, in limited circumstances, select their own broker-dealers subject to Diamond Hill's directed brokerage policy described below.

When selecting broker-dealers to execute transactions, Diamond Hill takes into consideration the range and quality of a broker's services including, but not limited to, execution capability, trading expertise, accuracy of execution, commission rates, research, reputation and integrity, fairness in resolving disputes, financial responsibility, and responsiveness. The determinative factor is not the lowest possible commission cost, but whether the transaction represents best qualitative execution under the circumstances. The evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions is based on the professional opinions and judgments of the persons responsible for the placement and review of such transactions.

These opinions are formed on the basis of, among other things, the experience of these individuals in the securities industry and information available to them, including industry survey data, concerning the level of commissions being paid by other investors of comparable size and type.

Diamond Hill has a Best Execution Committee that has oversight and policy making responsibility for Diamond Hill's brokerage practices. The Best Execution Committee includes representatives from senior management, trading, compliance, and investments. The Best Execution Committee meets periodically, typically quarterly.

Diamond Hill's equity traders use various trade execution management systems to ensure proper trade management, including fair order allocation and best execution. Diamond Hill may also place orders to buy and sell equity securities where the broker is acting on a principal rather than agency basis, if Diamond Hill's traders believe that trading on a principal basis is likely to provide best execution. The Strategic Income portfolio managers typically execute their own trades with approved brokers who provide closely monitored inventories of fixed income securities on a regular basis.

We have controls in place for monitoring execution in our clients' portfolio transactions, including reviewing trades for best execution. Certain broker-dealers that Diamond Hill uses to execute client trades are also clients of Diamond Hill and/or refer clients to Diamond Hill creating a conflict of interest. To mitigate this conflict we adopted a policy that prohibits us from considering any factor other than best execution when a client trade is placed with a broker-dealer.

## **EXECUTION PRACTICES FOR LEGACY SECURITIES**

Diamond Hill reserves the right to establish policies that limit acceptance of a client's previously acquired securities ("legacy" positions or securities) for account funding or contribution purposes. Where accepted, Diamond Hill generally evaluates legacy positions and may sell all or a portion of such securities to the extent that such securities would not be included in Diamond Hill's model portfolio holdings for such account (unless such securities are subject to another express arrangement). Depending on the size and characteristics of the legacy position and the then-prevailing markets and other factors, the client may receive a sale price that is less favorable than if the transaction involved a more marketable or liquid position. The client will be responsible for all tax liabilities that result from any sale transactions.

In connection with establishing a new account or account mandate for a separate account, Diamond Hill will work with the client to identify legacy securities that might appropriately be held by the account.

## **EXECUTION PRACTICES FOR THE TERMINATION OF ACCOUNTS**

Clients who terminate separate accounts may retain securities in their account or instruct Diamond Hill to sell the portfolio securities. When following termination and liquidation instructions, as a result of time constraints and lot sizes that may be applicable to these types of sale transactions, and the general unavailability of the full range of trading techniques including aggregation, the prices received in these transactions may be less favorable than the prices that could be attained for sales of securities selected by Diamond Hill as part of ongoing management.

## **RESEARCH AND OTHER SOFT DOLLAR BENEFITS**

In allocating brokerage, Diamond Hill may take into consideration the receipt of research and brokerage services, consistent with its obligation to seek best execution for client transactions. As permitted by Section 28(e) of the Securities Exchange Act of 1934, as amended (“Section 28(e)”), Diamond Hill may cause its clients to pay a broker that provides “brokerage and research services” (as defined by Section 28(e)) to Diamond Hill an amount of commission for effecting a securities transaction for clients in excess of the amount other brokers would have charged for the transaction if Diamond Hill determines in good faith that the greater commission is reasonable in relation to the value of the brokerage and research services provided by the executing broker viewed in terms of either a particular transaction or Diamond Hill’s overall responsibility to the client and its other clients. The broker may directly provide brokerage and research services to Diamond Hill, or may purchase them from a third party for Diamond Hill. When Diamond Hill uses commissions to receive brokerage and research services, Diamond Hill receives a benefit because it does not have to produce or pay for the research, products, or services.

The term “brokerage and research services” includes advice as to the value of securities; the advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; and effecting securities transactions and performing functions incidental thereto (such as clearance and settlement) or required in connection therewith by applicable rules.

Diamond Hill has acquired the following types of brokerage and research services with client commissions:

- Reports or databases containing corporate, fundamental, industry, economic or statistical analyses;
- Industry conferences;
- Access to analysts and corporate management;
- Trading analytics; and
- Research field trips to visit corporate management and/or tour company facilities (collectively, “Research”).

Diamond Hill has entered into Client Commission Agreements with broker/dealers that are involved from time to time in executing, clearing, or settling securities transactions on behalf of clients (“CCA Brokers”) which provide for the CCA Brokers to pay a portion of the commissions paid by Diamond Hill’s clients for securities transactions (“CCA Commissions”) to providers of research services.

Because these research service providers may play no role in executing client securities transactions, any research prepared by that research service provider may constitute third party research. Diamond Hill may use brokerage commissions, including CCA Commissions, from client portfolio transactions to acquire Research, subject to the procedures and limitations provided in this discussion.

From time to time, Diamond Hill prepares a list of providers of research services that have been deemed by Diamond Hill to provide valuable research (“Research Firms”) as determined by Diamond Hill’s investment staff. CCA Brokers are eligible to be included in the list of Research

Firms. All trades with Research Firms will be affected in accordance with Diamond Hill's obligation to seek best execution for its client accounts. Diamond Hill uses a vote by its investment staff as a guide for allocating CCA Commissions. Compensation for research may also be made pursuant to commissions paid on trades executed by a Research Firm who is registered as a broker/dealer ("Research Broker"). Under normal circumstances, CCA Brokers are compensated for research solely through trade commissions. To the extent that payments for research to a Research Broker other than a CCA Broker are made pursuant to trade commissions, Diamond Hill will reduce the amount of CCA Commissions to be paid to that Research Broker for its research. However, Diamond Hill will reduce the amount of CCA Commissions to be paid to that Research Broker by less than the full amount of trade commissions paid to that Research Broker. Neither Diamond Hill nor any client has an obligation to any Research Firm if the amount of trade commissions and CCA Commissions paid to the Research Firm is less than the applicable non-binding target. Diamond Hill reserves the right to pay cash to a Research Firm from its own resources in an amount Adviser determines in its discretion.

The products and services acquired by Diamond Hill in connection with such arrangements are intended to comply with Section 28(e) and the SEC's related interpretive guidance. Diamond Hill will not cause its clients to use trade commissions or CCA Commissions for purposes other than for eligible brokerage and research services.

Clients desiring to prohibit Diamond Hill from generating CCA Commissions on transactions in their accounts should consider that they will generally pay the same commission rates as accounts that are not prohibited from generating CCA Commissions.

In determining whether a service or product qualifies as brokerage and research services under Section 28(e), Diamond Hill evaluates whether the service or product provides lawful and appropriate assistance to Diamond Hill in carrying out its investment decision making responsibilities. The determination and evaluation of the reasonableness of the brokerage commissions paid is based primarily on the professional opinions of the investment professionals who utilize the Research.

Research received from broker-dealers is supplemental to Diamond Hill's own research efforts. As a practical matter, in some cases Diamond Hill could not, on its own, generate all of the research that broker-dealers provide without materially increasing expenses. The management fee paid by Diamond Hill's clients is not reduced as a consequence of Diamond Hill's receipt of Research. To the extent the clients' portfolio transactions are used to obtain Research, the brokerage commissions paid by the clients might exceed those that might otherwise be paid for execution only. The brokerage and research and services furnished by broker-dealers may be useful and of value to Diamond Hill in servicing any or all of Diamond Hill's clients and may not necessarily be used by Diamond Hill in connection with the accounts that actually paid commissions, nor in proportion to the amount of commissions paid by accounts, to the broker-dealer providing the services.

Receipt of Research from brokers who execute client trades involves conflicts of interest. Since Diamond Hill uses client brokerage commissions to obtain Research, it receives a benefit because it does not have to produce or pay for the research, products, or services itself. Consequently, Diamond Hill may have an incentive to select or recommend a broker based on its desire to receive research, products, or services rather than a desire to obtain the most favorable execution. Diamond Hill attempts to mitigate these potential conflicts through oversight of the use of commissions by its Best Execution Committee.

## **DIRECTED BROKERAGE & AGGREGATED TRADES**

Although we discourage clients from directing trades to a particular broker-dealer (directed brokerage), we do have clients who request directed trades. Transactions for these clients will generally be executed following the execution of portfolio transactions in other client accounts where Diamond Hill has full discretion to execute trades. In the event that we do accommodate a directed brokerage relationship, we may place the trade with an executing broker on our approved list. Clients who request or require directed trades may pay higher brokerage commissions because we may not be able to aggregate orders to reduce transaction costs, and may also receive less favorable prices and execution.

Diamond Hill has a trade allocation policy that allows it to select brokers for accounts where the client has given us full discretion. Trades in discretionary accounts are grouped together and traded first. Directed brokerage accounts, in which the client has directed us to use a specific broker, are grouped together and placed in random order by broker. Directed brokerage account trades are executed after all discretionary trades have been completed. When a trade is partially completed, the shares are allocated on a pro-rata basis to the appropriate client accounts. All grouped trades are allocated to the participating accounts at average cost.

## **SERVICES FOR OTHER CLIENTS**

Diamond Hill may give advice and take action for itself or clients, including registered investment companies and other pooled investment vehicles, which differ from advice given to, or the timing or nature of action taken for, other clients. Specific asset allocations within client accounts may differ from those in other accounts managed by Diamond Hill due to various factors, including but not limited to, the availability of certain investments, market conditions, or the amount of client funds available for investment or reinvestment. Diamond Hill is not obligated to initiate any transactions for clients in any security that Diamond Hill may purchase or sell for its own accounts or the accounts of any other client.

## **Item 13: Review of Accounts**

Client accounts are monitored by our compliance department daily for consistency with client objectives and restrictions. Portfolio managers have real-time access to each account through our trade order management system. Portfolio managers also perform a periodic review of each client account, during which every position in each client account is compared to the weights in the appropriate investment strategy model.

Diamond Hill issues periodic written reports to certain of its investment advisory clients. These written reports generally contain a list of assets, investment results, and statistical data related to the client's account. We urge clients to carefully review these reports and compare the statements that they receive from their custodian to the reports that we provide. The information in our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Wrap fee clients and clients in other similar programs receive reports directly from program sponsors, not from Diamond Hill.



## **Item 14: Client Referrals and Other Compensation**

Other than the compensation described in Items 5 and 6, Diamond Hill does not receive an economic benefit from anyone other than its clients. (Item 10 provides more information about these relationships.).

Diamond Hill may enter into agreements with broker-dealers or investment advisers that are referred to as Solicitor's Agreements. Diamond Hill pays a percentage of the management fee and/or performance-based fee collected from the client to a referring broker-dealer or investment adviser. Clients under these agreements will not be charged fees higher than the standard fees described in Item 5. (Item 5 provides a discussion of our fees and compensation structures.). Diamond Hill currently has Solicitor's Agreements with Barclays Capital, Inc., Synovus Securities, Inc., Morgan Keegan & Company, Inc., Stifel, Nicolaus & Company, Incorporated, and Far Hills Group, LLC.

## **Item 15: Custody**

Diamond Hill does not provide custodial services to its clients. Client assets are held with banks or registered broker-dealers that are “qualified custodians.” Clients will receive statements directly from the qualified custodians at least quarterly. We urge clients to carefully review those statements and compare the custodial records to the reports that we provide them. The information in our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Diamond Hill may be deemed to have custody of certain private investment funds for which it serves as managing member or general partner. Investors in such private investment funds will receive the fund’s annual audited financial statements. Such investors should review these statements carefully. If investors in the private funds do not receive audited financial statements in a timely manner, then they should contact Diamond Hill immediately.

## **Item 16: Investment Discretion**

All clients enter into a written investment management agreement with Diamond Hill prior to receiving investment management services. These agreements give us authority to manage the client's account and place trades, subject to the investment objectives and guidelines for the account.

Diamond Hill usually receives and accepts discretionary authority to manage the assets in each client's account. We observe investment limitations and restrictions that are outlined in each account's investment management agreement.

## Item 17: Voting Client Securities

We will allow clients to vote the proxies in their account; however, Diamond Hill typically accepts authority to vote proxies for our clients' accounts.

For those clients that retain the ability to vote proxies themselves, clients will not receive information about their proxies from Diamond Hill. Instead, clients should receive proxies from their custodian, transfer agent or other third-party service provider such as their proxy service provider.

For those clients that direct Diamond Hill to vote proxies on their behalf, Diamond Hill has established a formal written proxy voting policy and procedures that are designed to ensure that proxies are voted in a manner to maximize the value of the securities held in our clients' accounts.

When we vote proxies, our objective is to maximize the value of the securities held in clients' portfolios. We will pay particular attention to the following matters in exercising our proxy voting responsibilities for our clients:

**Accountability.** Each company should have effective controls in place to hold those entrusted with managing a company's business accountable for their actions. Company management should be accountable to its board of directors and the board should be accountable to shareholders.

**Alignment of Management and Shareholder Interests.** Each company should seek to align the interests of management and the board of directors with the interests of the company's shareholders. For example, we generally believe that compensation should be designed to reward management for creating value for the shareholders of the company.

**Transparency.** Each company should provide timely disclosure of important information about its business operations and financial performance to enable investors to evaluate the company's performance and to make informed decisions about the purchase and sale of the company's securities.

When we recognize a conflict of interest that impedes our ability to vote a proxy, we will deliver the proxy to the client to be voted.

We do not utilize third party proxy voting services.

If a client wishes to direct Diamond Hill to vote in a certain manner for a particular proxy, they should provide such direction in writing to Diamond Hill at least two weeks prior to the shareholder meeting date.

A copy of our proxy voting policies and procedures and/or information regarding the votes cast by Diamond Hill with regard to a client's securities is available upon request mailed to:

**Diamond Hill Capital Management, Inc.**

**Attn: Proxy Voting Requests**

**325 John H. McConnell Blvd.**

**Suite 200**

**Columbus, Ohio 43215**

## **Item 18. Financial Information**

In certain circumstances, registered investment advisers are required to provide you with financial information or disclosures about their financial condition in this Item. Diamond Hill has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding. Diamond Hill Investment Group, Inc. files quarterly and annual financial statements with the SEC. These are available through the SEC and on our web site at the following location:

<http://ir.diamond-hill.com/>

## **Voluntary Disclosure of Personal Investments**

Alignment of interests with those of our clients is a key tenet of our firm's mission. To foster alignment of interests further, our Code of Ethics prohibits employees from purchasing individual equity securities. The Code of Ethics also prohibits the purchase of third-party mutual funds that invest primarily in U.S. equity securities. Third-party mutual funds can only be purchased in strategies not managed by Diamond Hill (e.g. municipal bond funds or international funds). As a result, substantially all employees' equity investments are in the same Diamond Hill managed strategies in which our clients invest.

The tables below represent the dollar range of investments owned by portfolio managers and officers as of December 31, 2013. These tables include shares beneficially owned through the Diamond Hill 401(k) plan.

Strategy	Portfolio Manager	DOLLAR RANGE OF INVESTMENTS IN SPECIFIC DIAMOND HILL STRATEGY					
		\$1 - \$10,000	\$10,001 - \$50,000	\$50,001 - \$100,000	\$100,001 - \$500,000	\$500,001 - \$1,000,000	Over - \$1,000,000
Small Cap	Tom Schindler						X
Small-Mid Cap	Chris Welch						X
Large Cap	Chuck Bath						X
Select	Austin Hawley				X		
	Rick Snowdon						X
Long-Short	Ric Dillon						X
	Chris Bingaman						X
	Chuck Bath						X
Research Opportunities	Kapish Bhutani				X		
	Jason Downey					X	
	Brian Fontanella				X		
	Igor Golalic				X		
	Austin Hawley					X	
	Jenny Hubbard				X		
	Bhavik Kothari				X		
	John Loesch		X			X	
	Krishna Mohanraj						
	Aaron Monroe				X		
	Nate Palmer				X		
	Suken Patel				X		
	Kyle Schneider			X			
	Tod Schneider				X		
	Rick Snowdon						X
	Brad Stauffer				X		
Financial Long-Short	Chris Bingaman						X
Strategic Income	Bill Zox					X	

Individual	Title	DOLLAR RANGE OF INVESTMENTS IN ALL DIAMOND HILL STRATEGIES					
		\$1 - \$10,000	\$10,001 - \$50,000	\$50,001 - \$100,000	\$100,001 - \$500,000	\$500,001 - \$1,000,000	Over - \$1,000,000
Chuck Bath	Portfolio Manager						X
Chris Bingaman	Portfolio Manager						X
Ric Dillon	Portfolio Manager						X
Tom Schindler	Portfolio Manager						X
Chris Welch	Portfolio Manager						X
Bill Zox	Portfolio Manager					X	
Kapish Bhutani	Research Analyst						X
Jason Downey	Research Analyst					X	
Brian Fontanella	Research Analyst				X		
Igor Golalic	Research Analyst					X	
Austin Hawley	Research Analyst						X
Jenny Hubbard	Research Analyst					X	
Bhavik Kothari	Research Analyst					X	
John Loesch	Research Analyst					X	
Krishna Mohanraj	Research Analyst		X				
Aaron Monroe	Research Analyst				X		
Nate Palmer	Research Analyst				X		
Suken Patel	Research Analyst					X	
Kyle Schneider	Research Analyst			X			
Tod Schneider	Research Analyst				X		
Rick Snowdon	Research Analyst						X
Brad Stauffer	Research Analyst				X		
James Laird	Chief Financial Officer						X
Gary Young	Chief Compliance Officer					X	
Adviser's Corporate Investments	N/A						X