Risk Factors Comparison 2024-02-29 to 2023-02-23 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

The Company' s future results of operations, financial condition, liquidity, and capital resources as well as the market price of its common ~~stock~~ **shares** , are subject to various risks, including those risks mentioned below and elsewhere in this Form 10- K as well as those risks that are discussed from time- to- time in the Company' s other filings with the SEC. Investors should carefully consider these risks before making an investment decision regarding the Company' s **securities** ~~common shares~~ . There may be additional risks of which the Company is currently unaware, or which the Company currently considers to be immaterial. The occurrence of any of these risks could have a material adverse effect on the Company' s financial condition, results of operations, liquidity, capital resources and the value of its **securities** ~~common stock~~ . Please see " Forward Looking Statements " within Part I, Item 1, of this Form 10- K. Business Risks Poor investment results or adverse ratings of the Company' s products could affect its ability to attract new clients or could reduce its AUM, potentially negatively impacting revenue and net income. If the Company fails to deliver acceptable investment results for its clients, both in the short and long-term, the Company 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 impact the Company' s AUM and revenue. The Company' s success depends on its key personnel, and its financial performance could be negatively affected by the loss of their services. The Company' s 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 the Company faces significant competition for qualified employees. Other than the Company' s Chief Executive Officer, its employees do not have employment contracts and generally can terminate their employment at any time. The Company may not be able to retain or replace key personnel. **To** ~~In order to~~ retain or replace its key personnel, the Company may be required to increase compensation, which would decrease its net income. The loss of key personnel could damage the Company' s 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 the Company' s revenues and net income **. Specifically, Charles Bath, a co- portfolio manager on our Large Cap strategy, which is our largest strategy by AUM and revenues, announced his retirement from the Company effective December 31, 2024. It is possible his departure could lead to increased redemptions resulting in a material decline in AUM and revenue. The Company has had a well- defined succession plan in place since 2018, when Austin Hawley was named co-portfolio manager on the Large Cap strategy. Mr. Hawley has worked closely with Mr. Bath for over 15 years, including the last six years as a co- portfolio manager** . The Company' s investment results and / or growth in its AUM may be constrained if appropriate investment opportunities are not available or if the Company closes certain of its investment strategies to new investors. The Company' s ability to deliver ~~strong~~ **excellent** investment results depends in large part on its ability to identify appropriate investment opportunities in which to invest client assets. If the Company is unable to identify sufficient investment opportunities for existing and new client assets on a timely basis, its 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 the Company' s AUM increases rapidly. ~~Our~~ **The Company' s** efforts to establish and develop new strategies may face challenges or ultimately be unsuccessful, which could impact ~~our~~ **its** results of operations, ~~our~~ reputation **,** and **/ or** culture. In addition, if the Company determines that sufficient investment opportunities are not available for an investment strategy, or it believes that it is necessary to continue to produce attractive returns from an investment strategy, the Company will consider closing the investment strategy to new investors. ~~As of December 31, 2022, the Company has two investment strategies closed to new investors.~~ If the Company misjudged the point at which it would be optimal to close an investment strategy, the investment results of the strategy could be negatively impacted **. The Company has closed investment strategies in the past and may do so again in the future. As of December 31, 2023, the Company does not have any closed investment strategies** . The Company is subject to substantial competition in all aspects of its business. The Company' s 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 the Company' s 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. The Company competes with other providers of investment services primarily based upon its philosophy, performance, and client service. Some institutions have a broader array of products and distribution channels, which makes it more difficult for the Company to compete. If current or potential clients decide to use one of the Company' s competitors, it could face a significant decline in market share, AUM, **AUA,** revenues, and net income. If the Company is required to lower its fees to remain competitive, its net income could be significantly reduced because some of the Company' s expenses are fixed, especially over shorter periods of time, and its 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 over actively managed strategies. If this trend continues, the Company' s AUM **, revenues, and net income** may be negatively impacted **. Industry trends towards lower fee strategies and model portfolio arrangements could adversely impact the Company' s revenues** . 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 the Company will be able to maintain its current fee structure. As a result, a shift in in the Company' s AUM from higher to lower fee generating clients and strategies could result in a decrease in profitability even if its AUM increases or remains unchanged. **Similarly, in recent years, there has been a trend in clients shifting their assets from higher fee mutual funds and separately managed accounts to lower fee model portfolio arrangements. As a result, a shift in the Company' s client assets from AUM to AUA could result in a decrease in Company revenues.** The loss of access to, or increased fees required by, third- party distribution sources to market the Company' s portfolios and access its client base could adversely affect the Company' s results of operations. The Company' s ability to attract additional AUM is dependent on its relationship with third- party financial intermediaries. The Company compensates 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 the Company for reasonable terms, or at all. If such access is restricted or eliminated, it could have an adverse effect on the Company ~~'~~ **'** s 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 the Company ~~'~~ **'** s access to those client bases while paying them could adversely affect its profitability. A significant portion of DHCM' s revenues are based on advisory and administration agreements with the Funds that are subject to termination without cause and on short notice. DHCM is highly dependent on its contractual relationships with the Funds. If DHCM ~~'~~ **'** s advisory or administration agreements with the Funds were terminated or not renewed, or were amended or modified to reduce fees, DHCM would be materially and adversely affected. Generally, these agreements are terminable by either party upon 60 days' prior written notice without penalty. The Funds' agreements are subject to annual approval by either: (i) ~~the~~ **their** 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 DHCM or the Funds. DHCM generated approximately **68 %,** 71 %, **and** 69 % ~~, and 75 %~~ of its **2023,** 2022, **and** 2021 ~~, and 2020~~ revenues, respectively, from its advisory and administration agreements with the Funds, including ~~34~~ **30** %, ~~11~~ **12** %, and 10 % 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 ~~2022~~ **2023** . 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 DHCM. DHCM believes that it has strong relationships with the Funds and their ~~boards~~ - **board** of trustees, and it has 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 DHCM. Negative public opinion of the Company could cause it to lose clients and adversely affect its ~~stock~~ **share** price. Negative public opinion can result from the Company' s actual or alleged conduct in any number of activities, including trading practices, corporate governance and acquisitions, DEI issues, social media and other marketing activities, and actions taken by governmental regulators and community organizations in response to any of the foregoing. Negative public opinion could adversely affect the Company' s ability to attract and maintain clients, could expose the Company to potential litigation or regulatory action, and could have a material adverse effect on its ~~stock~~ **share** price or result in heightened volatility. Operational Risks Cybersecurity attacks could prevent the Company from managing client portfolios, cause the unauthorized disclosure of sensitive or confidential client or employee information or result in misappropriation of information or funds, each of which could severely harm its business. As part of its business, the Company collects, processes, and transmits sensitive and confidential information about its clients and employees, as well as proprietary information about its business. The Company has policies and procedures pursuant to which it takes 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 **sensitive or** confidential information. Nevertheless, the Company ~~'~~ **'** s systems, like all technology systems, remain vulnerable to unauthorized access, which can result in theft or corruption of information. In addition, the Company shares information with third ~~parties~~ **party vendors** upon whom it relies for various functions. The systems of such third parties also are vulnerable to cyber threats. Unauthorized access can come from unrelated third parties through the internet, from access to hardware removed from the Company ~~'~~ **'** s ~~premises~~ or those ~~of~~ third parties **' premises,** or from employees acting intentionally or inadvertently. Cybersecurity incidents can involve, among other things: (i) deliberate attacks designed to corrupt the Company ~~'~~ **'** s information systems and make them unusable by the Company to operate its 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 the Company does business. Cyberattacks that corrupt the Company ~~'~~ **'** s information systems and make them unusable could impair its ability to trade securities in its clients' accounts. Corruption of the systems of the Company ~~'~~ **'** s third- party vendors could impact the Company to the same extent as corruption of its own systems. If information about the Company ~~'~~ **'** s employees **or clients** is intentionally stolen or inadvertently made public, that information could be used to commit identity theft, obtain credit in an employee **' s or client** ' s name, or steal from an employee **or client** . If information about the Company ~~'~~ **'** s business is obtained by unauthorized persons, whether through intentional attacks or inadvertent releases of information, it could be used to harm its 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 the Company ~~'~~ **'** s business or personal information about clients or employees), **it** ~~the results~~ could **have various adverse impacts on, and** be ~~multiple and~~ materially harmful to ~~us~~ **, the Company** , including the following: • The Company ~~'~~ **'** s reputation could be harmed, resulting in the loss of clients, vendors, and employees or making payments or concessions to such persons to maintain its relationships with them; • The Company ~~'~~ **'** s inability to operate its business fully, even if temporarily, and thus, fulfill contracts with clients or vendors, could result in termination 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; • The Company ~~'~~ **'** s need to focus attention on remediation of a ~~cyber~~ **cybersecurity** issue could take its attention away from the operation of its business, resulting in lost revenue; • The Company could incur costs to repair systems made inoperable by a cyberattack and to make changes to its 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; • The interruption of the Company’ s business or theft of proprietary information could harm its ability to compete; and • Any losses that the Company may be responsible to bear may not be covered by insurance. Any of the above potential impacts of a cybersecurity incident could have a material adverse effect on the Company’ s business, financial condition, and results of operations. The Company may not be able to adapt to technological change. The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology- driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve clients while reducing costs. The Company ~~'~~**’** s future success depends, in part, upon its ability to address client needs by using technology to provide products and services that will satisfy client demands, as well as to create additional efficiencies in its operations. The Company may not be able to implement effectively new technology- driven products and services or be successful in marketing these products and services to its clients. Failure to successfully keep pace with technological changes affecting the financial services industry could negatively affect the Company’ s growth, revenue, and profit. **The Company operates in an intensely competitive business environment. It may not be as successful as its competitors incorporating artificial intelligence (“ AI ”) into its business or adapting to a rapidly changing marketplace. The Company’ s competitors may be larger, more diversified, better funded, and have access to more advanced technology, including AI. These competitive advantages may enable its competition to innovate better and more quickly, or to compete more effectively on quality and price, which could cause the Company to lose business and profitability. Burgeoning interest in AI may increase competition and disrupt the Company’ s business model. AI may lower barriers to entry in the industry and the Company may be unable to effectively compete with the products or services offered by new competitors. AI- related changes to the products and services on offer may affect customer expectations, requirements, or tastes in ways that the Company cannot adequately anticipate or adapt to, causing its business to lose revenues, market share, or the ability to operate profitably and sustainably.** Operational risks may disrupt the Company’ s business, result in losses, or limit its growth. The Company is dependent on the capacity and reliability of the communications, information, and technology systems supporting its operations, whether developed, owned, or operated internally by the Company or by third parties. Operational risks, such as trading or operational errors, interruption of the Company’ s 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 the Company’ s business, liability to clients, regulatory intervention, or reputational damage, and thus, adversely affect its business. Industry, Market, and Economic Risks The Company ~~'~~**’** s AUM, which impacts revenue, is subject to significant fluctuations. The majority of the Company’ s 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 the Company’ s AUM, and consequently, its revenue and net income. A recession or other economic or political events, whether in the United States or globally could also adversely impact the Company’ s revenue, if such events led to a decreased demand for products, a higher redemption rate, or a decline in securities prices. Investor interest in the valuation of ~~our~~ **the Company’ s** fixed income strategies are affected by changes in interest rates and the overall credit environment. In addition, the majority of ~~our~~ **the Company’ s** existing AUM is managed in primarily long- only, equity investment strategies, which exposes ~~us~~ **it** to greater risk than certain of ~~our~~ **its** competitors who may manage assets in more diverse strategies. The Company ~~'~~**’** s investment approach may underperform other investment approaches during certain market conditions. The Company ~~'~~**’** s investment strategies are best suited for investors with long- term investment time horizons. The Company ~~'~~**’** s investment strategies may not perform well during certain periods of time. Additionally, the Company could have common positions and industry concentrations across its strategies at the same time. As such, factors leading to underperformance may impact multiple strategies simultaneously. The Company ~~'~~**’** s investment income and asset levels may be negatively impacted by fluctuations in its investment portfolio. The Company currently has a substantial portion of its assets invested in investment strategies that it manages. All of these investments are subject to market risk and the Company’ s non- operating investment income could be adversely affected by ~~adverse~~ market performance. Fluctuations in investment income are expected to occur in the future. Trading in the Company’ s common shares is limited, which may adversely affect the time and the price at which shareholders can sell their shares. Although the Company’ s common shares are listed on the ~~NASDAQ~~ **The Nasdaq** Global Select Market, the shares are held by a relatively small number of shareholders, and trading in its common shares is relatively inactive. The spread between the bid and the ask 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 the Company’ s 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 its shares. Regulatory Risks Changes in tax laws and unanticipated tax obligations could have an adverse impact on the Company’ s financial condition, results of operations, and cash flow. The Company is subject to federal, state, and local income taxes in the United States. Tax authorities may disagree with certain positions that the Company has taken or may implement changes in tax policy, which may result in the assessment of additional taxes on the Company. The Company regularly assesses the appropriateness of its tax positions and reporting. The Company cannot provide assurances, however, that tax authorities will agree with the positions it has taken, or that the Company will accurately predict the outcomes of audits, and the actual outcomes of these audits could be unfavorable. The Company ~~'~~**’** s 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 its results of operations and financial condition. The Company ~~'~~**’** s business is subject to a variety of federal securities laws, including the Advisers Act, the 1940 Act, the Securities 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 **, each as amended** . In addition, the Company is subject to significant regulation and oversight by the SEC. Changes in legal, regulatory, accounting, tax, and compliance requirements could have a significant effect on the Company' s operations and results, including, but not limited to, increased expenses and reduced investor interest in certain funds and other investment products that the Company offers. The Company continually monitors legislative, tax, regulatory, accounting, and compliance developments that could impact its business. The Company and its 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 the Company, which could negatively affect its financial condition and results of operations, as well as divert management' s attention from its operations. General Risk Factors The Company' s insurance policies may not cover all losses and costs to which it may be exposed. The Company carries insurance in amounts and under terms that it believes are appropriate. The Company' s insurance may not cover all liabilities and losses to which it may be exposed. Certain insurance coverage may not be available or may be prohibitively expensive in future periods. As the Company' s insurance policies come up for renewal, it may need to assume higher deductibles or pay higher premiums, which could have an adverse impact on its results of operations and financial condition. Natural disasters, global pandemics, and other unpredictable events could adversely affect the Company' s operations. Natural disasters, outbreaks of epidemics or pandemics, terrorist attacks, extreme weather events or other unpredictable events could adversely affect the Company' s revenues, expenses, and net income by: • Decreasing investment valuations in, and returns on, the investment portfolios that the Company manages and its corporate investments, thus, causing reductions in revenue; • Causing disruptions in national or global economies that decrease investor confidence and make investment products generally less attractive; • Reducing the availability of key personnel necessary to conduct the Company' s business activities; • Interrupting the Company' s business operations or those of critical service providers; • Triggering technology delays or failures; and **/ or** • Requiring substantial capital expenditures and operating expenses to restore the Company' s operations. The Company has developed various backup systems and contingency plans but cannot be assured that those preparations will be adequate in all circumstances that could arise, or that material interruptions and disruptions will not occur. The Company also relies to varying degrees on outside vendors for service delivery in addition to technology and disaster contingency support **.** ~~, and there~~ **There** is a risk that these vendors will not be able to perform in an adequate and timely manner. If the Company loses the availability of employees, or if it is unable to respond adequately to such an event in a timely manner, revenues, expenses, and net income could be negatively impacted. Specifically, the effects of the outbreak of the novel coronavirus (COVID- 19) ~~since~~ **in** early 2020 ~~have~~ negatively affected the global economy, the ~~United States~~ **U. S.** economy, and the global financial markets, and **demonstrated that pandemics** may disrupt the Company' s operations, which could have an adverse effect on the Company' s business, financial condition, and results of operations. Although the long- term effects of the ~~current~~ pandemic cannot ~~currently~~ be predicted, previous occurrences of other pandemic and epidemic diseases had an adverse effect on the economies of those countries in which they were most prevalent. A recurrence of an outbreak of any kind of epidemic, communicable disease or virus or major public health issue could cause a slowdown in the levels of economic activity generally, which would adversely affect the Company' s business, financial condition and operations.