

The Composite increased 3.94%, net of fees, during the quarter compared to a 4.48% increase in the Russell 1000 Index and a 3.11% increase in the Russell 1000 Value Index.

The Composite's holdings in the financials, information technology, and health care sectors provided the largest contribution to absolute return, while consumer staples and industrials were detractors.

The Composite's underperformance relative to the Russell 1000 Index was primarily driven by security selection and an underweight position in the information technology sector. Security selection in the industrials sector, as well as overweight positions in consumer staples and consumer discretionary, also detracted from relative return. Security selection in the energy sector contributed to relative return, although it was somewhat offset by our underweight position in the sector. Favorable security selection in the financials sector combined with our overweight position in the sector, as well as security selection in the health care and consumer discretionary sectors, also contributed to relative return.

Best Performers

- Shares of health care products manufacturer **Abbott Laboratories** outperformed after the company received earlier-than-anticipated approval of its MRI-safe cardiac device and FreeStyle Libre glucose monitor. Additionally, the company is making demonstrable progress remediating the issues it inherited with the St. Jude acquisition.
- Financial services company **Citigroup, Inc.** reported solid second-quarter earnings and held an upbeat analyst day in July. Additionally, the prospect of higher interest rates and lower corporate tax rates seemed to boost shares of many of the large banks later in the quarter.
- Shares of global automotive supplier **BorgWarner, Inc.** outperformed amid positive reaction to the company quarterly results and investor day, which provided more clarity on how the company is positioned to succeed in an auto industry transitioning to electric vehicles.
- Outperformance of oil and gas exploration and production (E&P) company **Cimarex Energy Co.** likely reflects a rebound in oil prices during the month of September. Negative revisions to production growth expectations for the domestic E&P industry along with positive revisions to global oil demand growth create a

PORTFOLIO MANAGEMENT



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path to a faster rebalancing of global oil inventories. In contrast to the rest of the domestic E&P industry, Cimarex reported strong production growth execution as others revised production guidance lower.

- Shares of software provider **Microsoft Corp.** rose after the company reported another quarter of strong operating results. Cloud platform Azure and the company's cloud software offerings continue to drive revenue growth with an attractive margin profile.

Worst Performers

- Shares of medical device manufacturer **Medtronic PLC** declined due to supply shortages within its diabetes segment as well as a week-long IT outage. The supply shortages are being driven by higher-than-expected customer demand and should be resolved over the next few quarters as production ramps up. Additionally, the company's Puerto Rican manufacturing facilities were hit by Hurricane Maria. We believe these problems are largely temporary and that the company's valuation looks attractive relative to peers.
- Personal products manufacturer **Kimberly-Clark Corp.** reported weaker-than-expected quarterly results and revised guidance for 2018.
- Shares of tobacco products manufacturer **Philip Morris International, Inc.** underperformed after the FDA announced plans to regulate nicotine content in cigarettes.
- Building and aerospace technology conglomerate **United Technologies Corp.** announced the acquisition of Rockwell Collins, which likely dilutes the overall return on invested capital for the company and lowers earnings-per-share in the near term as it pulls back on its share repurchase program.
- Diversified media and entertainment company **Walt Disney Co.** reported weak quarterly results and announced a strategic shift in its approach to distribution. Plans for direct-to-consumer streaming products for ESPN and the Disney Channel create a threat to the existing U.S. pay-TV bundle. We believe Disney is the only traditional media company with the brand and global content necessary to attempt this route. However, we are closely monitoring how the change in distribution could affect Disney's profitability.



New Positions

We received shares of life insurance and annuity provider **Brighthouse Financial, Inc.** when it was spun out of MetLife, Inc., and we subsequently added to our position as the share price declined well below our estimate of intrinsic value. Although the company is sensitive to capital markets due to a large block of historical annuities, we believe significant excess capital and prudent hedging will help manage this risk. We expect Brighthouse to return significant amounts of capital to shareholders over the long term.

Eliminated Positions

We sold our shares of credit services company **Capital One Financial Corp.** and reallocated the proceeds to more attractive investment opportunities. Our thesis for medical technology company **Stryker Corp.** played out and we eliminated the position when the price moved above our estimate of intrinsic value. We eliminated our position in networking and communications company **Cisco Systems, Inc.** as a result of weakening fundamentals and concerns that industry dynamics will become increasingly challenging over time.

Diamond Hill Large Cap Strategy

As of September 30, 2017

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: June 30, 2001

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	3Q17
LARGE CAP COMPOSITE							
Gross of Fees	9.79	8.40	15.42	11.67	21.31	14.38	4.08
Net of Fees	9.18	7.83	14.82	11.10	20.71	13.95	3.94
BENCHMARKS							
Russell 1000 Index	6.92	7.55	14.27	10.63	18.54	14.17	4.48
Russell 1000 Value Index	7.03	5.92	13.20	8.53	15.12	7.92	3.11

CALENDAR YEAR RETURNS (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
LARGE CAP COMPOSITE										
Gross of Fees	6.95	-33.92	31.49	10.61	3.60	13.35	37.79	11.60	-0.16	15.24
Net of Fees	6.37	-34.29	30.79	10.00	3.11	12.79	37.06	10.99	-0.72	14.71
BENCHMARKS										
Russell 1000 Index	5.77	-37.60	28.43	16.10	1.50	16.42	33.11	13.24	0.92	12.05
Russell 1000 Value Index	-0.17	-36.85	19.69	15.51	0.39	17.51	32.53	13.45	-3.83	17.34

Diamond Hill Capital Management Inc. (DHCM) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards. Diamond Hill has been independently verified for the period 5/31/00–6/30/17. Diamond Hill's current verification firm is ACA Compliance Group. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. In addition the Large Cap Composite has received a Performance Examination from 6/30/01–6/30/17. The verification and performance exam reports are available upon request. Diamond Hill is a registered investment adviser and wholly owned subsidiary of Diamond Hill Investment Group, Inc. Diamond Hill provides investment management services to individuals and institutional investors through mutual funds, separate accounts, exchange traded funds and private investment funds. A complete list and description of all composites and policies for valuing portfolios, calculating and reporting returns, and preparing compliant presentations are available upon request. The Large Cap Composite is comprised of discretionary fee paying non-wrap accounts managed according to the firm's Large Cap equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in large capitalization companies selling for less than our estimate of intrinsic value. The Composite typically invests in large-capitalization companies, which are defined as companies with a market capitalization of \$5 billion or greater. However, the Composite can invest in companies with a market capitalization as low as \$2.5 billion. The Composite results reflect the reinvestment of dividends, capital gains, and other earnings when appropriate. Composite returns and benchmark returns are presented gross of withholding taxes on dividends, interest income and capital gains. Returns are calculated using U.S. Dollars. Net returns are calculated by reducing the gross returns by either the actual client fee paid or the highest stated fee in the Composite fee schedule, depending on the type of client and account, and are reduced by estimated accrued performance based fees where applicable. Only transaction costs are deducted from gross of fees returns. The Russell 1000 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 1,000 largest companies, on a market capitalization basis, in the Russell 3000 Index. The Russell 1000 Value Index is shown as additional information. This index is an unmanaged market-capitalization weighted index measuring the performance of the large cap value segment of the U.S. equity universe including those Russell 1000 Index companies with lower expected growth values. The Russell 3000 Index is an unmanaged market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. Our selection process may lead to portfolios that differ markedly from the benchmarks presented. Returns may be more volatile than, and/or may not be correlated to these indices, which are for comparative purposes only. The Firm's standard fee schedule for Large Cap separate accounts is as follows: First \$20,000,000 = 0.60%; Over \$20,000,000 = 0.50%. The dispersion measure is the asset weighted standard deviation of the annual portfolio returns. Only portfolios represented in the Composite for the entire year are included in the calculation. The calculation is not performed if the Composite contains 5 or fewer accounts for the full year. No alteration of composites as presented here has occurred because of changes in personnel at any time. **Past performance is not a guarantee of future results.** It should not be assumed that an investment in the securities identified was or will be profitable. The holdings identified do not represent all of the securities purchased, sold, or recommended for the adviser's clients. To obtain the contribution calculation methodology and a complete list of every holding's contribution to the overall portfolio's performance during the measurement period, please contact 855.255.8955 or info@diamond-hill.com. The Global Investment Performance Standards are a trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this report/advertisement.

AS OF YEAR-END	DHCM	LARGE CAP COMPOSITE			3-YR STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Large Cap Composite	Russell 1000 Index
2016	\$19.4B	185	\$7.1B	0.28%	11.91%	10.69%	10.77%
2015	16.8B	180	5.8B	0.30	11.83	10.48	10.68
2014	15.7B	155	5.8B	0.10	9.53	9.12	9.20
2013	12.2B	132	4.2B	0.24	12.48	12.26	12.70
2012	9.4B	135	3.7B	0.24	14.42	15.41	15.51
2011	8.7B	129	3.5B	0.21	18.88	18.95	20.69
2010	8.6B	123	3.2B	0.22	NA	NA	NA
2009	6.3B	106	1.5B	0.64	NA	NA	NA
2008	4.5B	108	792.5M	0.86	NA	NA	NA
2007	4.4B	96	764.2M	0.44	NA	NA	NA

NA = Not Applicable

This composite was created in October 2013.

**Global Investment
Performance Standards**