

# Large Cap Composite

As of December 31, 2017



## OBJECTIVE

Long-term capital appreciation by investing in companies selling for less than our estimate of intrinsic value.

## INVESTMENT STRATEGY

- To estimate intrinsic value, the business must be understandable, and we must be able to reasonably forecast its cash flows. We seek businesses with sustainable competitive advantages, conservative balance sheets, and management with an ownership mentality.
- Investments are sold when the stock price reaches our estimate of intrinsic value, our estimate of intrinsic value is revised such that there is no longer a discount to intrinsic value, a holding reaches our stated maximum position size, or to raise proceeds for a more attractive opportunity.

## PORTFOLIO MANAGEMENT



Chuck Bath, CFA  
Portfolio Manager



Austin Hawley, CFA  
Portfolio Manager



Chris Welch, CFA  
Asst. Portfolio Manager

## PORTFOLIO GUIDELINES

- Typically 40–60 positions
- Maximum position size is 7%
- Top 10 holdings are typically greater than 30% of net assets
- Maximum industry exposure is 20%
- Maximum sector exposure is 30%

## Market Capitalization

The portfolio typically invests in large capitalization companies with a market capitalization of \$5 billion or greater.

## TOP TEN EQUITY HOLDINGS

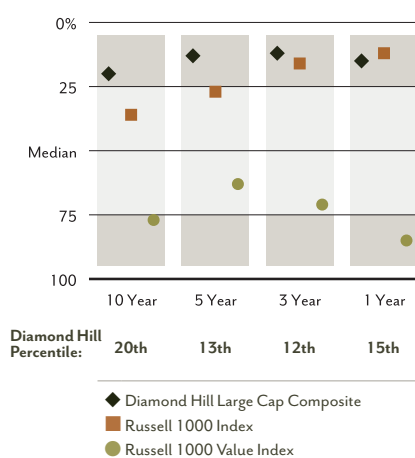
Abbott Laboratories	Health Care	4.1%
Citigroup, Inc.	Financials	4.1
Discover Financial Services	Financials	3.7
JPMorgan Chase & Co.	Financials	3.6
United Technologies Corp.	Industrials	3.3
Microsoft Corp.	Info. Technology	3.2
Alphabet, Inc. (CIA)	Info. Technology	3.1
Morgan Stanley	Financials	3.1
Philip Morris International, Inc.	Consumer Staples	2.8
Pfizer, Inc.	Health Care	2.8
<b>Total as % of Net Assets</b>		<b>33.9%</b>
<b>Total number of equity holdings</b>		<b>53</b>

## SECTOR ALLOCATION

	LARGE CAP COMPOSITE	RUSSELL 1000 INDEX	RUSSELL 1000 VALUE INDEX
Financials	27.9%	14.9%	26.6%
Cons. Discretionary	17.2	13.1	7.9
Health Care	13.7	13.1	13.5
Info. Technology	12.1	23.4	8.6
Consumer Staples	11.6	7.1	7.5
Industrials	8.4	10.5	8.3
Energy	3.8	5.9	11.0
Materials	3.8	3.4	3.0
Real Estate	0.0	3.6	4.7
Utilities	0.0	2.9	5.9
Telecom	0.0	2.0	3.0
Cash & Other <sup>1</sup>	1.5	0.0	0.0

<sup>1</sup> Cash & Other may include cash, treasuries, money market funds, and short duration fixed income funds.

## PEER GROUP QUARTILE RANKINGS<sup>2</sup>



## PERIOD AND AVERAGE ANNUAL TOTAL RETURNS

Inception Date: June 30, 2001

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	4Q17
<b>LARGE CAP COMPOSITE</b>							
Gross of Fees	10.01	9.23	16.46	11.69	21.10	21.10	5.88
Net of Fees	9.40	8.66	15.86	11.13	20.51	20.51	5.76
<b>BENCHMARKS</b>							
Russell 1000 Index	7.22	8.59	15.71	11.23	21.69	21.69	6.59
Russell 1000 Value Index	7.25	7.10	14.04	8.65	13.66	13.66	5.33

<sup>2</sup> Source: eVestment Analytics. Ranking within eVestment U.S. Large Cap Value Equity universe based on monthly returns gross of fees. Ranking data calculated on 1/16/2018 (as of 12/31/17) and is subject to change as additional firms within the category submit data.

Please review GIPS® performance disclosure on the reverse side.

Side One. Not Valid Without Side Two.

PORTFOLIO CHARACTERISTICS VS. BENCHMARK<sup>3</sup>

	LARGE CAP COMPOSITE	RUSSELL 1000 INDEX	RUSSELL 1000 VALUE INDEX
Median Forward P/E	19.3x	21.2x	19.9x
Median Trailing P/E	21.2x	24.6x	22.4x
Weighted Average Dividend Yield	1.7%	1.8%	2.3%
Median Price / Book	3.1x	3.1x	2.4x
Median Price / Sales	2.4x	2.6x	2.2x
Median Market Cap.	\$41.5B	\$10.1B	\$9.4B
Weighted Average Market Cap.	\$135.4B	\$162.8B	\$119.5B
Portfolio Turnover 5 Year	20%	—	—
Active Share <sup>4</sup> vs. Core <sup>5</sup> / Value <sup>6</sup> Benchmark	80% / 82%	—	—
Upside / Downside Capture Ratio <sup>7</sup> vs. Core Benchmark <sup>5</sup>	110% / 91%	—	—
Upside / Downside Capture Ratio <sup>7</sup> vs. Value Benchmark <sup>6</sup>	112% / 93%	—	—

<sup>3</sup> Source: FactSet.

<sup>4</sup> Source: Morningstar Direct. Active share measures the difference between portfolio holdings and the benchmark. The higher the active share, the greater the difference.

<sup>5</sup> The Russell 1000 Index is the core benchmark.

<sup>6</sup> The Russell 1000 Value Index is the value benchmark.

<sup>7</sup> Source: eVestment Analytics based on quarterly returns (gross of fees) from 7/1/01 – 12/31/17.

## CALENDAR YEAR RETURNS (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
LARGE CAP COMPOSITE										
Gross of Fees	-33.92	31.49	10.61	3.60	13.35	37.79	11.60	-0.16	15.24	21.10
Net of Fees	-34.29	30.79	10.00	3.11	12.79	37.06	10.99	-0.72	14.71	20.51
BENCHMARKS										
Russell 1000 Index	-37.60	28.43	16.10	1.50	16.42	33.11	13.24	0.92	12.05	21.69
Russell 1000 Value Index	-36.85	19.69	15.51	0.39	17.51	32.53	13.45	-3.83	17.34	13.66

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. DHCM has been independently verified for the period 5/31/00 - 9/30/17. DHCM'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 - 9/30/17. The verification and performance exam reports are available upon request. DHCM is a registered investment adviser and wholly owned subsidiary of Diamond Hill Investment Group, Inc. DHCM 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 result.** 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 ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management (Gross of Fees)	Large Cap Composite	Russell 1000 Index	Russell 1000 Value Index
2017	\$22.3B	196	\$9.1B	0.12%	11.36%	9.97%	10.20%
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

NA = Not applicable

This composite was created in October 2013.

Side Two. Not Valid Without Side One.

BEST & WORST PERFORMERS<sup>8</sup>

SECURITY NAME	4Q17 CONTRIBUTION	POSITION AS OF 4Q17
<b>Best</b>		
Discover Financial Services	0.6%	3.7%
Microsoft Corp.	0.5	3.2
JPMorgan Chase & Co.	0.4	3.6
Aetna, Inc.	0.3	2.6
United Technologies Corp.	0.3	3.3
<b>Worst</b>		
First Republic Bank	-0.2%	0.9%
Whirlpool Corp.	-0.2	0.7
Hanesbrands, Inc.	-0.2	1.0
Philip Morris International, Inc.	-0.1	2.8
Charter Communications, Inc. (CIA)	-0.1	1.7

<sup>8</sup> Source: FactSet. 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, contact 855.255.8955 or info@diamond-hill.com.