

The Composite increased 5.76%, net of fees, during the quarter compared to a 6.59% increase in the Russell 1000 Index and a 5.33% increase in the Russell 1000 Value Index.

The Composite's holdings in all sectors contributed to absolute return, led by the financials and information technology sectors.

The Composite's underperformance relative to the Russell 1000 Index was primarily driven by security selection in the consumer discretionary and financials sectors, although this was partially offset by a higher allocation to these strong-performing sectors. An underweight position in the information technology sector and security selection in consumer staples also hurt relative performance. Favorable security selection in the health care and industrials sectors were positive contributors to relative performance.

Best Performers

- Shares of banking and payment services provider **Discover Financial Services** outperformed as the U.S. credit environment remains relatively benign, which benefits the company's fundamental performance in terms of low, stable charge-offs. Discover is a relatively high U.S. tax payer and stands to benefit from the recently outlined changes to the tax code.
- Software provider **Microsoft Corp.** reported strong quarterly earnings that included revenue growth and margin expansion above expectations. The company also indicated that it has improved its operating margin expectation for full-year fiscal 2018.
- Shares of banking and financial services company **JP Morgan Chase & Co.** outperformed as the combination of tax reform, higher short-term interest rates, and a continuation of healthy economic growth contributed to a solid earnings outlook for 2018.
- Shares of health care benefits company **Aetna, Inc.** outperformed after CVS Health made a formal offer to acquire Aetna. The deal is expected to close mid-2018.
- Shares of building and aerospace technology conglomerate **United Technologies Corp.** rose as the company meaningfully ramped up production and made good progress on addressing certain quality issues pertaining to its new geared turbofan jet engine program.

PORTFOLIO MANAGEMENT



Chuck Bath, CFA
Portfolio Manager



Austin Hawley, CFA
Portfolio Manager



Chris Welch, CFA
Asst. Portfolio Manager

Worst Performers

- Shares of banking and financial services company **First Republic Bank** declined following company guidance for elevated near-term expenses as it continues to invest in its high-growth franchise. Recent tax law changes to the deductibility of mortgage interest also stoked fears that the company's above-peer growth rate will slow.
- Household durables manufacturer **Whirlpool Corp.** reported weak quarterly results driven largely by raw material inflation and a competitive promotional environment. Whirlpool continues to lose share in Europe, while Asia experienced significant margin declines as both industry weakness and promotional intensity weighed on the business.
- Shares of apparel manufacturer **Hanesbrands, Inc.** underperformed as general concerns about the health of the wholesale channel overshadowed stronger performance in other business lines. While the fundamental trends for the innerwear segment are still weak, the company's margins and market share are holding up well and cash flow is strong.
- Shares of tobacco products manufacturer **Philip Morris International, Inc.** declined after the company reported weaker-than-expected quarterly results.
- Cable and internet services company **Charter Communications, Inc. (CIA)** reported underwhelming quarterly results driven by weaker-than-expected subscriber trends in video and internet. We believe fundamentals will improve as the integration of Time Warner Cable and Bright House continues, and that Charter is well-positioned to grow intrinsic value over the long term.

New Positions

We initiated a position in oil and gas exploration and production company **Devon Energy Corp.** Company management recently articulated a more disciplined capital investment strategy along with a potential, sizeable divestiture program that would help focus the business around attractive core assets. We believe Devon holds an attractive, scalable acreage position in both the Delaware Basin and the Anadarko Basin that should drive meaningful improvement in return on invested capital over time. We started a position in industrial supplies distributor **Fastenal Co.**, a company we already own in other Diamond Hill strategies. The company



has a unique service-oriented culture and we believe it is poised to gain meaningful market share over the next five years via its onsite and industrial vending growth initiatives. We also purchased shares of airline operator **United Continental Holdings, Inc.** The company has improved its operating performance and we believe it is in a good position to improve margins over the next few years via revenue and cost initiatives. Free cash flow generation should increase as capital expenditures decline from current peak levels, and the company recently announced an incremental \$3 billion share repurchase authorization.

Eliminated Positions

We eliminated our position in industrial product manufacturer **Illinois Tool Works, Inc.** when shares reached our estimate of intrinsic value.

Diamond Hill Large Cap Strategy

As of December 31, 2017

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: June 30, 2001

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	4Q17
LARGE CAP COMPOSITE							
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
BENCHMARKS							
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

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. Diamond Hill has been independently verified for the period 5/31/00–9/30/17. 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 6/30/01–9/30/17. 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

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 (Dispersion (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.

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.

Global Investment Performance Standards