

The Composite decreased 3.72%, net of fees, compared to a 0.69% decrease in the Russell 1000 Index and a 2.83% decrease in the Russell 1000 Value Index.

The Composite's holdings in the energy, consumer discretionary, consumer staples, and financials sectors were the largest detractors from absolute return.

Security selection in the consumer discretionary and energy sectors was the primary driver of underperformance relative to the Russell 1000 Index. Security selection and an underweight allocation to information security also detracted from relative return, while security selection in the health care and materials sectors modestly contributed to relative return.

Best Performers

- Software provider **Microsoft Corp.** reported strong quarterly earnings. The company also indicated that it now expects to achieve slight operating margin expansion in 2018, which was an improvement from expectations.
- Health care products manufacturer **Abbott Laboratories** continues to execute and its device pipeline remains well-stocked. The company is reducing debt ahead of schedule, improving balance sheet flexibility, and shielding itself from rising interest rates.
- Shares of payment processing services provider **Worldpay, Inc. (CIA)** rose following the closing of its merger with Vantiv and the release of positive results and guidance for the combined company. The size and scope of the new firm brings attractive growth opportunities via new geographies and industry sectors.
- Discount apparel retailer **TJX Cos., Inc.** reported strong fourth-quarter comparable store sales growth. In addition, TJX is a beneficiary of the Tax Cuts and Jobs Act and announced plans to use proceeds from its windfall to repurchase \$2.5-\$3 billion in company stock this fiscal year.
- Life sciences tools company **Thermo Fisher Scientific, Inc.** reported very strong earnings results. All end markets are strong and the company is benefiting from integrating acquisitions and new product launches.

PORTFOLIO MANAGEMENT



Chuck Bath, CFA
Portfolio Manager



Austin Hawley, CFA
Portfolio Manager



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Asst. Portfolio Manager

Worst Performers

- The underperformance of oil and gas exploration and production company **Cimarex Energy Co.** likely reflects industry concerns around exposure to weaker regional natural gas prices and service cost inflation; however, we believe these issues will largely be resolved over the medium term.
- The underperformance of oil and gas exploration and production company **Devon Energy Corp.** likely reflects concerns about regional natural gas prices along with confusion around 2018 production and capex guidance, which we believe were overly conservative. We do not see any reason to believe the company is seeing a meaningful degradation in operating results.
- Shares of banking and financial services company **Citigroup, Inc.** lagged as investors appeared to become increasingly focused on potential barriers to international trade.
- Shares of consumer products manufacturer **Procter & Gamble Co.** traded lower over fears of continued rising transportation costs and a possible inability to pass those cost increases on to retail customers.
- Life insurance company **MetLife, Inc.** pre-announced fourth-quarter results that were impacted by a material weakness in the company's process for handling claims in its U.S. group annuity business. This was a disappointing development and reflected poorly on management; however, the financial impact is minimal.

New Positions

- Beverage company **Constellation Brands, Inc. (CIA)** presents a unique opportunity to gain exposure to a very high-quality portfolio of irreplaceable brands such as Corona, Modelo, Pacifico, Ballast Point, Meiomi, Black Box, Casa Noble, and High West.



- Social media company **Facebook, Inc. (CI A)** is the largest social network in the world. The company also owns other large user base properties (Instagram, WhatsApp, and Messenger), all of which benefit from network effects. We initiated a position in the company based on our belief that the company's attractive network economics will remain in place over the long term, and that the current valuation reflects excessive pessimism related to uncertainties around regulation and fines that the company might face. We believe these issues are likely to be resolved without impairing the value of the business.
- Biotechnology company **Gilead Sciences, Inc.** is the market leader in drugs used for the treatment of human immunodeficiency virus (HIV) and hepatitis C virus (HCV). We are encouraged by management's use of capital to diversify into high-value areas of research including next-generation oncology therapies, immunology, and liver disease.

- Semiconductor manufacturer **Texas Instruments, Inc.** is the world's largest chipmaker in analog semiconductors. The company has a manufacturing advantage over its competitors and enjoys scale benefits, along with having a broad portfolio of products. The company also has an excellent capital allocation strategy and is a beneficiary of the U.S. Tax Cuts and Jobs Act.

Eliminated Positions

- We eliminated industrial supplies distributor **Fastenal Co.** as it reached our estimate of intrinsic value.
- Automobile manufacturer **Ford Motor Co.** and household durables manufacturer **Whirlpool Corp.** were eliminated in order to invest capital in more attractive opportunities.

Diamond Hill Large Cap Strategy

As of March 31, 2018

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: June 30, 2001

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	1Q18
LARGE CAP COMPOSITE							
Gross of Fees	9.62	9.54	13.07	10.24	9.62	-3.60	-3.60
Net of Fees	9.01	8.97	12.48	9.68	9.06	-3.72	-3.72
BENCHMARKS							
Russell 1000 Index	7.07	9.61	13.17	10.39	13.98	-0.69	-0.69
Russell 1000 Value Index	6.96	7.78	10.78	7.88	6.95	-2.83	-2.83

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 – 12/31/17. 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 – 12/31/17. 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.; registration does not imply a certain level of skill or training. 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 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
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.

**Global Investment
Performance Standards**