

# Large Cap Concentrated Composite

As of September 30, 2018



## 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 20 positions
- Maximum position size is 10%
- Top 10 holdings are typically greater than 50% of net assets
- Maximum industry exposure is 25%
- Maximum sector exposure is 35%

## Market Capitalization

Holdings are derived from holdings in the Diamond Hill Large Cap strategy. The Large Cap strategy typically invests in large capitalization companies with a market capitalization of \$5 billion or greater.

## TOP TEN EQUITY HOLDINGS

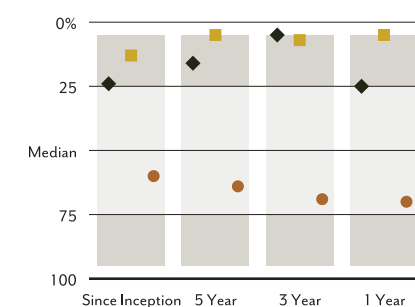
Abbott Laboratories	Health Care	8.0%
Citigroup, Inc.	Financials	7.7
Alphabet, Inc. (CI A)	Communication Services	6.4
Discover Financial Services	Financials	6.1
United Technologies Corp.	Industrials	5.7
Berkshire Hathaway, Inc. (CI B)	Financials	5.4
MetLife, Inc.	Financials	5.0
TJX Cos., Inc.	Cons. Discretionary	4.9
Microsoft Corp.	Info. Technology	4.9
Devon Energy Corp.	Energy	4.8
<b>Total as % of Net Assets</b>		<b>58.9%</b>
<b>Total number of equity holdings</b>		<b>20</b>

## SECTOR ALLOCATION

	LARGE CAP CONCENTRATED COMPOSITE	RUSSELL 1000 INDEX	RUSSELL 1000 VALUE INDEX
Financials	28.8%	13.4%	22.8%
Health Care	17.5	14.5	15.2
Communication Services	13.6	9.4	6.8
Consumer Staples	12.1	5.8	6.2
Cons. Discretionary	11.6	10.9	6.2
Industrials	5.7	10.0	8.1
Info. Technology	4.9	21.3	9.8
Energy	4.8	5.8	10.8
Real Estate	0.0	3.3	4.6
Materials	0.0	2.8	3.9
Utilities	0.0	2.8	5.6
Cash & Other <sup>1</sup>	1.0	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>



Diamond Hill Percentile: 24th 16th 5th 25th

- ◆ Diamond Hill Large Cap Concentrated Composite
- Russell 1000 Index
- Russell 1000 Value Index

## PERIOD AND AVERAGE ANNUAL TOTAL RETURNS

Inception Date: December 31, 2011

	SINCE INCEPTION	5-YR	3-YR	1-YR	YTD	3Q18
<b>LARGE CAP CONCENTRATED COMPOSITE</b>						
Gross of Fees	15.00	12.73	17.46	14.16	7.59	8.72
Net of Fees	14.62	12.47	17.28	13.55	7.17	8.58
<b>BENCHMARKS</b>						
Russell 1000 Index	15.65	13.67	17.07	17.76	10.49	7.42
Russell 1000 Value Index	13.53	10.72	13.55	9.45	3.92	5.70

<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 10/16/18 (as of 9/30/18) 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 CONCENTRATED COMPOSITE	RUSSELL 1000 INDEX	RUSSELL 1000 VALUE INDEX
Median Forward P/E	19.1x	19.0x	17.1x
Median Trailing P/E	19.4x	23.1x	21.0x
Weighted Average Dividend Yield	1.9%	1.8%	2.4%
Median Price / Book	3.8x	3.2x	2.3x
Median Price / Sales	2.5x	2.6x	2.2x
Median Market Cap.	\$142.9B	\$10.8B	\$9.8B
Weighted Average Market Cap.	\$233.3B	\$218.1B	\$120.4B
Portfolio Turnover 5 Year	26%	—	—
Active Share <sup>4</sup> vs. Core <sup>5</sup> / Value <sup>6</sup> Benchmark	85% / 85%	—	—
Upside / Downside Capture Ratio <sup>7</sup> vs. Core Benchmark <sup>5</sup>	100% / 106%	—	—
Upside / Downside Capture Ratio <sup>7</sup> vs. Value Benchmark <sup>6</sup>	108% / 101%	—	—

<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 monthly returns (gross of fees) from 1/1/12 – 9/30/18.

## CALENDAR YEAR RETURNS (%)

	2012	2013	2014	2015	2016	2017
LARGE CAP CONCENTRATED COMPOSITE						
Gross of Fees	10.00	38.75	10.70	-0.59	19.17	19.28
Net of Fees	9.74	37.22	10.63	-0.46	19.16	18.57
BENCHMARKS						
Russell 1000 Index	16.42	33.11	13.24	0.92	12.05	21.69
Russell 1000 Value Index	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 Capital Management Inc. (DHCM) has been independently verified for the periods 5/31/00 - 6/30/18. 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 Concentrated Composite has received a Performance Examination from 12/31/11 - 6/30/18. 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.; registration does not imply a certain level of skill or training. 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 Concentrated Composite is comprised of discretionary fee paying non-wrap accounts managed according to the firm's Large Cap Concentrated 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. Holdings are derived from holdings in the Diamond Hill Large Cap strategy. The Large Cap strategy typically invests in large-capitalization companies, which are defined as companies with a market capitalization of \$5 billion or greater. However, the Large Cap strategy 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

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

SECURITY NAME	3Q18 CONTRIBUTION	POSITION AS OF 3Q18
<b>Best</b>		
Abbott Laboratories	1.5%	8.0%
Pfizer, Inc.	1.0	4.8
TJX Cos., Inc.	0.8	4.9
Microsoft Corp.	0.8	4.9
Berkshire Hathaway, Inc. (CI B)	0.7	5.4
<b>Worst</b>		
Facebook, Inc. (CI A)	-0.6%	4.0%
Devon Energy Corp.	-0.5	4.8
BorgWarner, Inc.	0.0	3.1
Philip Morris International, Inc.	0.1	4.5
PepsiCo, Inc.	0.2	3.7

<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.

AS OF YEAR-END	DHCM	3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)					
		LARGE CAP CONCENTRATED COMPOSITE			LARGE CAP CONCENTRATED COMPOSITE		
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Large Cap Concentrated Composite	Russell 1000 Index	Russell 1000 Value Index
2017	\$22.3B	5 or fewer	\$3.4M	NA <sup>9</sup>	12.41%	9.97%	10.20%
2016	19.4B	5 or fewer	2.9M	NA <sup>9</sup>	12.77	10.69	10.77
2015	16.8B	5 or fewer	418.9M	NA <sup>9</sup>	12.07	10.48	10.68
2014	15.7B	5 or fewer	422.6M	NA <sup>9</sup>	9.29	9.12	9.20
2013	12.2B	5 or fewer	382.3M	NA <sup>9</sup>	NA <sup>10</sup>	NA <sup>10</sup>	NA <sup>10</sup>
2012	9.4B	5 or fewer	275.9M	NA <sup>9</sup>	NA <sup>10</sup>	NA <sup>10</sup>	NA <sup>10</sup>

<sup>9</sup> NA = Not applicable

<sup>10</sup> Statistics are not presented because 36 monthly returns are not available. This composite was created in December 2011.

Side Two. Not Valid Without Side One.