

The Composite increased 7.68%, net of fees, compared to a 7.42% increase in the Russell 1000 Index and a 5.70% increase in the Russell 1000 Value Index.

The Composite's holdings in most sectors contributed to absolute return led by the health care, financials, industrials, and information technology sectors. Positions in the energy sector were slight detractors.

The Composite's outperformance relative to the Index was primarily driven by security selection in the industrials, health care, and financials sectors. Security selection in the information technology sector was a large contributor to relative return, but this was offset by an underweight allocation to the sector. Security selection in the energy sector also detracted from relative return.

## Best Performers

- Health care products manufacturer **Abbott Laboratories** outperformed as the company continues to post strong results across all divisions. Abbott also reported exceptionally robust clinical data for MitraClip, its mitral valve repair product. The company's strong performance has also translated into lower-than-anticipated leverage following the St. Jude and Alere acquisitions.
- Biopharmaceutical company **Pfizer, Inc.** outperformed after the company reported decent quarterly results, with solid revenue growth and increased earnings expectations for the year, as well as an improved pipeline outlook.
- Shares of software provider **Microsoft Corp.** rose after the company reported earnings that included strong revenue growth and operating margin expansion, resulting in earnings that were above consensus expectations.
- Shares of discount apparel retailer **TJX Cos., Inc.** rose as the company continues to take market share and produce strong quarterly results. The company experienced broad-based growth, with all businesses and geographies reporting positive results driven by increased traffic.
- Diversified holding company **Berkshire Hathaway, Inc. (CI B)** outperformed after reporting strong earnings across several of its most important subsidiaries, including GEICO and its large manufacturing businesses. In addition, the company announced an adjustment to its share repurchase policy that allows a repurchase any time that Warren Buffett and Charlie Munger agree that the stock is at a meaningful discount to intrinsic value.

## PORTFOLIO MANAGEMENT



Chuck Bath, CFA  
Portfolio Manager



Austin Hawley, CFA  
Portfolio Manager



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Asst. Portfolio Manager

## Worst Performers

- Shares of social media company **Facebook, Inc. (CI A)** declined as the company provided a downside outlook for the second half of 2018 and guided for declines in operating margins as it invests heavily in improving security and privacy on its social-media and messaging platforms. Facebook is trading at a discount to our estimate of intrinsic value and we expect the company to retain its attractive network economics and manage user privacy concerns well without impairing the value of the business over the long term.
- Underperformance of oil and gas exploration and production companies **Devon Energy Corp.** and **Cimarex Energy Co.** likely reflect concern about widening price differentials in 2019. We believe the widely-discussed infrastructure bottlenecks in the Permian Basin will be a 12- to 18-month event and that Cimarex and Devon are well-positioned to continue executing on development projects.
- Consumer apparel manufacturer **Hanesbrands, Inc.** underperformed. While quarterly results reflected some signs of stabilization in the core Innerwear segment, investors were spooked by the announcement that Target is not going to renew a contract with the company.
- Shares of diversified media and entertainment company **Twenty-First Century Fox, Inc. (CI B)** declined as the bidding war for Fox assets came to an end. Disney beat Comcast for the assets and received shareholder approval from Fox.

## New Positions

- Alcoholic beverage manufacturer **Constellation Brands, Inc. (CI A)** 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.



- We initiated a position in pharmacy health care services provider **CVS Health Corp.** which was trading at a significant discount to our conservative estimates of intrinsic value following Amazon's acquisition of PillPack. CVS is in the process of acquiring Aetna, a current holding in several strategies.
- **NVR, Inc.** is the fourth-largest homebuilder in the U.S. by volume and concentrates its efforts primarily in the Mid-Atlantic. While it operates in a cyclical and competitive industry, the combination of NVR's land-light strategy, leading local market share, efficient construction process, and excellent employee retention allows them to achieve high returns on capital over the long term while minimizing inventory risk. During good times, we believe NVR will be able to grow and benefit from housing tail winds. During bad times, management has proven to be excellent opportunistic capital allocators through repurchasing shares at attractive prices, entering new markets, and taking advantage of competitor distress.

## Eliminated Positions

- We eliminated our position in traditional asset management company **Franklin Resources, Inc.** and brewing company **Molson Coors Brewing Co. (CI B)** to redeploy the capital into more attractive opportunities and higher conviction ideas.
- We exited our position in diversified media and entertainment company **Twenty-First Century Fox, Inc. (CI B)** to reduce our exposure to regulatory risk from the Disney transaction and to the disrupted U.S. media environment.

# Diamond Hill Large Cap Strategy

As of September 30, 2018

## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: June 30, 2001

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	3Q18
LARGE CAP COMPOSITE							
Gross of Fees	9.88	11.65	12.38	15.90	11.35	5.17	7.80
Net of Fees	9.27	11.07	11.80	15.34	10.82	4.78	7.68
BENCHMARKS							
Russell 1000 Index	7.52	12.09	13.67	17.07	17.76	10.49	7.42
Russell 1000 Value Index	7.16	9.79	10.72	13.55	9.45	3.92	5.70

## 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 5/31/00–6/30/18. 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 6/30/01–6/30/18. 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. GIPS is 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	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.

**Global Investment  
Performance Standards**