

The Composite decreased 13.41%, net of fees, compared to a 13.82% decrease in the Russell 1000 Index and an 11.72% decrease in the Russell 1000 Value Index.

The Composite's holdings in all sectors detracted from absolute return, led by the financials sector. The energy and consumer discretionary sectors were also large detractors from absolute return.

The Composite's modest outperformance relative to the Russell 1000 Index was driven by security selection and overweight positions in the health care and consumer staples sectors. A large underweight position in the information technology sector also contributed to relative return. Security selection in the energy sector was the largest detractor from relative return.

## Best Performers

- Shares of consumer products manufacturer **Procter & Gamble Co.** rallied after reporting solid quarterly results due to a better-than-expected pricing environment in the U.S., as well as a softening input cost environment.
- Homebuilder **NVR, Inc.** reported decent quarterly results and outperformed the broader market, primarily due to the significant price declines in homebuilders taking place earlier in the year and the ensuing pessimism built into the stock price prior to the start of the quarter. Additionally, the rise in mortgage rates slowed, giving the housing market some relief from earlier in the year.
- Personal products manufacturer **Kimberly-Clark Corp.** outperformed after the company reported decent quarterly results and investor fears over an intensifying cost environment began to soften.
- We received shares of automobile equipment manufacturer **Garrett Motion, Inc.** and security services provider **Resideo Technologies, Inc.** after the companies were spun off from Honeywell International, Inc. They were quickly eliminated from the portfolio to allocate funds to more attractive investment opportunities. During the time they were held, they were down less than the overall market.

## TEAM



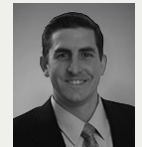
Chuck Bath, CFA  
Portfolio Manager



Austin Hawley, CFA  
Portfolio Manager



Chris Welch, CFA  
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Sr. Portfolio Specialist

## Worst Performers

- Underperformance of oil and gas exploration and production companies **Devon Energy Corp.** and **Cimarex Energy Co.** likely reflects the steep drop in oil prices throughout the quarter. The current outlook for oil prices in 2019 suggests that the broader domestic exploration and production industry will have to substantially slow its drilling activities. We still believe both companies hold very attractive assets, which should allow them to outgrow most peers over the next five years.
- Banking and financial services company **Citigroup, Inc.** underperformed amid a flattening of the yield curve as well as concerns over the outlook for economic growth and the resulting implications for loan growth and credit quality. Pressures on various emerging markets along with softness in global capital markets activities also weighed heavily on its stock. We believe that the company's capital position and solid profitability allow for continued modest balance sheet growth, while also repurchasing shares at a substantial discount to both tangible book value and our estimate of intrinsic value.
- Banking and payment services provider **Discover Financial Services** underperformed despite reporting strong loan growth, as well as reasonable charge-off and delinquency statistics. The company continues to achieve attractive risk-adjusted margins in its core credit card lending business, but investors have steered away from credit card stocks based on recessionary and credit cycle fears. We believe the valuation is compelling, and that the market is not giving Discover credit for its underlying through-the-cycle earnings power.
- Shares of building and aerospace technology conglomerate **United Technologies Corp.** declined after the company announced its intention to spin off its Aerospace, Carrier, and Otis businesses into three standalone companies. Since the announcement, shares have remained under pressure due to concerns over a peaking of the economic growth cycle.



## New Positions

- We established a position in property and casualty insurance company **American International Group, Inc.** (AIG) after the share price declined sharply. We believe AIG now has one of the best management teams in the industry and is nearing an inflection point in its turnaround.
- Global automobile manufacture **General Motors Co.** (GM) has a strong product mix and cash flow driven by its truck and SUV programs. As the mix of auto sales trends more towards crossovers, SUVs, and trucks, we believe GM is well positioned.
- We initiated an investment in oil and gas exploration and production company **Noble Energy, Inc.** as we believed a wave of uncertainty had been overly discounted in the valuation and that the market was underestimating Noble Energy's free cash flow potential. Investors were primarily concerned with an unsuccessful November ballot initiative that would have restricted Colorado drilling activity. There was also concern about near-term pricing risk in the Permian Basin from a lack of secure transportation agreements, but we believed this would be solved by late 2019.

## Eliminated Positions

- A full position in alcoholic beverage manufacturer **Constellation Brands, Inc. (CIA)** was never established and was sold to invest in a higher conviction idea.
- Health care benefits company **Aetna, Inc.** ceased trading as a separate entity after it was acquired by CVS, with the Department of Justice granting approval in October.
- We received shares of automobile equipment manufacturer **Garrett Motion, Inc.** and security services provider **Resideo Technologies, Inc.** after the companies were spun off from Honeywell International, Inc. They were eliminated from the portfolio to allocate funds to more attractive investment opportunities.

# Diamond Hill Large Cap Strategy

As of December 31, 2018

## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: June 30, 2001

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	4Q18
LARGE CAP COMPOSITE							
Gross of Fees	8.84	12.81	7.24	8.37	-8.81	-8.81	-13.29
Net of Fees	8.24	12.23	6.68	7.84	-9.27	-9.27	-13.41
BENCHMARKS							
Russell 1000 Index	6.50	13.28	8.21	9.09	-4.78	-4.78	-13.82
Russell 1000 Value Index	6.30	11.18	5.95	6.95	-8.27	-8.27	-11.72

## CALENDAR YEAR RETURNS (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
LARGE CAP COMPOSITE										
Gross of Fees	31.49	10.61	3.60	13.35	37.79	11.60	-0.16	15.24	21.10	-8.81
Net of Fees	30.79	10.00	3.11	12.79	37.06	10.99	-0.72	14.71	20.51	-9.27
BENCHMARKS										
Russell 1000 Index	28.43	16.10	1.50	16.42	33.11	13.24	0.92	12.05	21.69	-4.78
Russell 1000 Value Index	19.69	15.51	0.39	17.51	32.53	13.45	-3.83	17.34	13.66	-8.27

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 5/31/00–9/30/18. 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 6/30/01–9/30/18. 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

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
2018	\$19.1B	199	\$8.0B	0.36%	11.63%	10.95%	10.82%
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

NA = Not applicable

This composite was created in October 2013.

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.

**Global Investment  
Performance Standards**