

The Composite decreased 13.81%, 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 the financials sector were the largest detractors from absolute return, followed by positions in the consumer discretionary and energy sectors.

The Composite performed in line with the Russell 1000 Index. Security selection within the information technology and health care sectors contributed to relative return. An overweight allocation within the consumer staples sector and the strategy's cash allocation also contributed to relative return. Security selection within 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.
- Health care products manufacturer **Abbott Laboratories** outperformed amid strong organic growth, particularly in its nutrition segment, which has underperformed over the past few years. We believe that the company's decision to accelerate debt pay-down from the Alere and St. Jude deals will prove to be a prudent move in the years to come.
- 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.
- Biopharmaceutical company **Pfizer, Inc.** outperformed after the company announced that CEO Ian Read would retire and be replaced by the head of research and development, Albert Bourla. The company's recent clinical development success can be associated with Mr. Bourla's leadership, and we believe his appointment should be encouraging for shareholders. The company also announced that it would put its consumer business into a joint venture with GlaxoSmithKline, giving the company an attractive exit strategy through an IPO within the next three years.

## TEAM



Chuck Bath, CFA  
Portfolio Manager



Austin Hawley, CFA  
Portfolio Manager



Chris Welch, CFA  
Asst. Portfolio Manager



Matthew Stadelman, CFA  
Sr. Portfolio Specialist

- Shares of consumer snack and beverage manufacturer **PepsiCo, Inc.** rallied after reporting strong quarterly results across all geographies, including the challenging U.S. market.

## Worst Performers

- Underperformance of oil and gas exploration and production company **Devon Energy Corp.** 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 Devon holds very attractive assets, which should allow the company to outgrow most of its 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.
- 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.
- 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 tobacco products manufacturer **Philip Morris International, Inc.** declined after the release of a negative report issued by a sell-side research firm which estimated a much smaller global market for heated tobacco products than what is currently being touted by the tobacco industry.

## New Positions

- We added pharmacy health care services provider **CVS Health Corp.**, which is trading at trough levels and does not appear to reflect any of the potential benefits from its acquisition of Aetna. Both CVS and Aetna have been stable operationally and have benefitted from tax rates which were essentially cut in half by reform. We believe the market will begin to view the combined company through a different lens as the integration progresses and the company gradually de-emphasizes front store sales in favor of health services.
- **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 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

- 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 closed our position in consumer goods manufacturer **V.F. Corp.** to fund investments in more attractive opportunities.

# Diamond Hill Large Cap Concentrated Strategy

As of December 31, 2018

## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2011

	SINCE INCEPTION	5-YR	3-YR	1-YR	YTD	4Q18
LARGE CAP CONCENTRATED COMPOSITE						
Gross of Fees	12.04	7.75	9.69	-7.15	-7.15	-13.70
Net of Fees	11.66	7.52	9.28	-7.63	-7.63	-13.81
BENCHMARKS						
Russell 1000 Index	12.63	8.21	9.09	-4.78	-4.78	-13.82
Russell 1000 Value Index	11.02	5.95	6.95	-8.27	-8.27	-11.72

## CALENDAR YEAR RETURNS (%)

	2012	2013	2014	2015	2016	2017	2018
LARGE CAP CONCENTRATED COMPOSITE							
Gross of Fees	10.00	38.75	10.70	-0.59	19.17	19.28	-7.15
Net of Fees	9.74	37.22	10.63	-0.46	19.16	18.57	-7.63
BENCHMARKS							
Russell 1000 Index	16.42	33.11	13.24	0.92	12.05	21.69	-4.78
Russell 1000 Value Index	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 Capital Management Inc. (DHCM) has been independently verified for the periods 5/31/00 – 9/30/18. 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 – 9/30/18. 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 Cap separate accounts is as follows: First \$20,000,000 = 0.65%; Over \$20,000,000 = 0.55%. 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 CONCENTRATED COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Large Cap Concentrated Composite	Russell 1000 Index	Russell 1000 Value Index
2018	\$19.1B	5 or fewer	\$25.6M	NA <sup>1</sup>	12.34%	10.95%	10.82%
2017	22.3B	5 or fewer	3.4M	NA <sup>1</sup>	12.41%	9.97	10.20
2016	19.4B	5 or fewer	2.9M	NA <sup>1</sup>	12.77	10.69	10.77
2015	16.8B	5 or fewer	418.9M	NA <sup>1</sup>	12.07	10.48	10.68
2014	15.7B	5 or fewer	422.6M	NA <sup>1</sup>	9.29	9.12	9.20
2013	12.2B	5 or fewer	382.3M	NA <sup>1</sup>	NA <sup>2</sup>	NA <sup>2</sup>	NA <sup>2</sup>
2012	9.4B	5 or fewer	275.9M	NA <sup>1</sup>	NA <sup>2</sup>	NA <sup>2</sup>	NA <sup>2</sup>

<sup>1</sup> NA = Not applicable

<sup>2</sup> Statistics are not presented because 36 monthly returns are not available.

This composite was created in December 2011.

**Global Investment  
Performance Standards**