

ADAMS DIVERSIFIED EQUITY FUND, INC.  
Form N-CSRS  
July 21, 2017

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT  
COMPANIES**

**Investment Company Act file number: 811-00248**

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**ADAMS DIVERSIFIED EQUITY FUND, INC.**

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(Exact name of registrant as specified in charter)

**500 East Pratt Street, Suite 1300, Baltimore, Maryland 21202**

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(Address of principal executive offices)

**Lawrence L. Hooper, Jr.  
Adams Diversified Equity Fund, Inc.  
500 East Pratt Street, Suite 1300  
Baltimore, Maryland 21202**

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(Name and address of agent for service)

**Registrant's telephone number, including area code:** (410) 752-5900

**Date of fiscal year end:** December 31

**Date of reporting period:** June 30, 2017

Item 1. Reports to Stockholders.

**ADAMS  
DIVERSIFIED  
EQUITY  
FUND**

**SEMI-ANNUAL REPORT**

**JUNE 30, 2017**

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

U.S. equities rose to record levels in the first half of 2017 in one of the lowest volatility markets in recent history. Adams Diversified Equity Fund had a strong first six months, advancing 11.9% and surpassing the 9.3% return for the S&P 500 for the period.

The year started off strong with the broad stock market generating solid gains in the first quarter driven by confidence in the ongoing economic recovery and expectations stemming from the proposed pro-business policies of the Trump administration. The strength of the economy, particularly the labor market, led the Federal Reserve to raise short-term interest rates a quarter point at both its March and June meetings. The stock market continued to move higher during the second quarter despite signs that it will take longer than expected to realize the potential benefits from proposed policies on tax reform, health care, and infrastructure spending.

The best performing sectors in the S&P 500 for the first six months of 2017 were Technology, Health Care, and Consumer Discretionary. Energy was the worst performing sector due to ongoing pressure on oil prices. For the Fund, the strongest contributors to our outperformance were our holdings in Technology, Consumer Discretionary, and Consumer Staples.

The Technology sector was a standout in the period, increasing 22.3% despite a brief selloff in June due to valuation concerns around leading technology companies, including Apple, Microsoft, Facebook, and Google. While we recognize that the valuation multiples of these stocks have risen during the rally, we believe these companies deserve their current multiples given their compelling long-term growth potential. Software stocks led the broader Technology sector during the period. Your Fund's holdings in Adobe Systems increased 37.4%. Over the past several years Adobe has moved toward a subscription-based model for its publishing and design software, which has created a large and growing recurring revenue stream. The semiconductor industry group also outperformed its benchmark, generating a 34.3% gain in the first half. Lam Research helped fuel the Fund's substantial returns in the group. Lam manufactures equipment to fabricate high-density semiconductor chips, which are benefiting from the growing demand for increased memory capacity in smartphones, data centers, and automobiles.

The Consumer Discretionary sector also performed well during the first six months of 2017. The Fund benefited from holdings in Priceline and Amazon, which generated first-half gains of 27.6% and 29.1%, respectively. Priceline is well positioned to capitalize on favorable underlying travel trends and the growth of online travel booking. Amazon continues to gain market share by disrupting the model of traditional retailers. Its most recent bid to acquire Whole Foods sent shock waves through the grocery, mass market, and food distribution markets as investors fear that Amazon will do to the food industry what it did to bookstores years ago.

Within the Consumer Staples sector, the stock market reaction to the Amazon/Whole Foods news created an opportunity for us to initiate a position in Costco, which we view as a high-quality retailer with a defensible business model. Costco's already competitive pricing model, low-cost gas offering, and unique treasure hunt approach to merchandising make it more insulated from the Amazon threat. The portfolio's strongest performer within Consumer Staples was Philip Morris International, which generated a

LETTER TO SHAREHOLDERS (CONTINUED)

30.7% return. It benefited from the successful launch of a next-generation, reduced-risk product, IQOS, as well as continued strong pricing power. We expect that Altria, the largest domestic tobacco company, will also benefit from these secular trends and initiated a position in the stock. Slightly offsetting our relative gains in Consumer Staples was our investment in CVS Health. CVS has underperformed recently as it works through a transition in its pharmacy management business, Caremark. We find the current valuation of its high quality integrated model, which combines pharmacy, prescription services, and in-store clinics, very attractive for the long-term.

Health Care stocks also contributed to performance, driven by gains late in the period as more moderate health care proposals emerged to potentially replace the Affordable Care Act. The drug-pricing environment, which has pressured distributors for several years, has shown signs of stabilization. We view drug distribution company McKesson as a beneficiary of the better pricing environment and initiated a position in the stock. McKesson generates strong cash flow, has a solid balance sheet, and an attractive valuation. We funded the purchase by exiting our position in Biogen, whose stock appeared to fully reflect its current drug pipeline.

Energy was the weakest sector, declining 11.4% for the first six months of 2017. Crude oil (WTI) prices fell 20% to a 10-month low of \$42.31 in June. The decline was driven by oversupply concerns as already high U.S. crude oil inventory levels were met with rising production. OPEC's decision in November 2016 to curtail production had little impact on prices as U.S. shale production has largely offset the OPEC cuts. We initiated a position in Pioneer Natural Resources to increase our exposure to the Permian basin, the most resource-rich and cost-effective domestic shale opportunity. Pioneer has significant acreage in the core of the basin, which we view as a sustainable competitive advantage.

For the six months ended June 30, 2017, the total return on the Fund's net asset value (NAV) per share (with dividends and capital gains reinvested) was 11.9%. This compares to a 9.3% total return for the S&P 500 and an 8.7% total return for the Lipper Large-Cap Core Funds Average over the same time period. The total return on the market price of the Fund's shares for the period was 13.2%.

For the twelve months ended June 30, 2017, the Fund's total return on NAV was 20.7%. Comparable figures for the S&P 500 and Lipper Large-Cap Core Funds Average were 17.9% and 17.0%, respectively. The Fund's total return on market price was 21.6%.

During the first half of this year, the Fund paid distributions to shareholders in the amount of \$9.9 million, or \$.10 per share, consisting of \$.03 net investment income and \$.01 long-term capital gain, realized in 2016, and \$.06 of net investment income realized in 2017, all taxable in 2017. On July 13, 2017, an additional net investment income distribution of \$.05 per share was declared for payment on September 1, 2017. These constitute the first three payments toward our annual 6% minimum distribution rate commitment. Additionally, the Fund repurchased 596,561 shares of its Common Stock during the past six months. The shares were repurchased at an average price of \$13.87 and a weighted average discount to NAV of 15.6%, resulting in a \$.02 increase to NAV per share.

LETTER TO SHAREHOLDERS (CONTINUED)

On June 8, 2017, Ms. Nancy J. Floyd Prue retired from the Fund after 35 years of service. Ms. Prue held a variety of senior-level positions at Adams Funds. Most recently, she served as Executive Vice President and Director of Shareholder Communications. We thank her for the many contributions she made over the years and wish her well in retirement.

By order of the Board of Directors,

Mark E. Stoeckle

*Chief Executive Officer & President*

July 13, 2017

***Disclaimers***

This report contains forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect the Fund's actual results are the performance of the portfolio of stocks held by the Fund, the conditions in the U.S. and international financial markets, the price at which shares of the Fund will trade in the public markets, and other factors discussed in the Fund's periodic filings with the Securities and Exchange Commission.

This report is transmitted to the shareholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in the report. The rates of return will vary and the principal value of an investment will fluctuate. Shares, if sold, may be worth more or less than their original cost. Past performance is no guarantee of future investment results.

**PORTFOLIO HIGHLIGHTS**

June 30, 2017

(unaudited)

**Ten Largest Equity Portfolio Holdings**

|                                     | <i>Market Value</i> | <i>Percent<br/>of Net Assets</i> |
|-------------------------------------|---------------------|----------------------------------|
| Apple Inc.                          | \$ 69,201,610       | 4.1%                             |
| Alphabet Inc. (Class A & Class C)   | 59,899,322          | 3.6                              |
| Microsoft Corp.                     | 57,680,624          | 3.5                              |
| Facebook, Inc. (Class A)            | 45,792,234          | 2.7                              |
| Amazon.com, Inc.                    | 42,688,800          | 2.6                              |
| Adams Natural Resources Fund, Inc.* | 40,892,674          | 2.4                              |
| Comcast Corp. (Class A)             | 39,270,280          | 2.3                              |
| Philip Morris International Inc.    | 34,682,985          | 2.1                              |
| Bank of America Corp.               | 33,275,016          | 2.0                              |
| Johnson & Johnson                   | 32,000,951          | 1.9                              |
|                                     | \$ 455,384,496      | 27.2%                            |

\* Non-controlled affiliated closed-end fund

**Sector Weightings**



## STATEMENT OF ASSETS AND LIABILITIES

June 30, 2017

(unaudited)

| <b>Assets</b>   |    |               |                         |
|---|----|---------------|-------------------------|
| Investments* at value:  |    |               |                         |
| Common stocks:  |    |               |                         |
| Unaffiliated issuers (cost \$1,127,095,513)   | \$ | 1,611,055,235 |                         |
| Non-controlled affiliate (cost \$34,735,404)  |    | 40,892,674    |                         |
| Other investment in controlled affiliate (cost \$150,000)   |    | 1,469,000     |                         |
| Short-term investments (cost \$18,355,707)  |    | 18,355,707    |                         |
| Securities lending collateral (cost \$67,450)   |    | 67,450        | \$ 1,671,840,066        |
| Cash  |    |               | 91,795                  |
| Receivables:  |    |               |                         |
| Dividends and interest receivable   |    |               | 1,259,066               |
| Investment securities sold  |    |               | 7,181,305               |
| Net unrealized gain on open total return swap agreements*   |    |               | 128,890                 |
| Prepaid expenses and other assets   |    |               | 818,130                 |
| <b>Total Assets</b>   |    |               | <b>1,681,319,252</b>    |
| <b>Liabilities</b>  |    |               |                         |
| Investment securities purchased   |    |               | 7,248,652               |
| Obligations to return securities lending collateral   |    |               | 67,450                  |
| Accrued expenses and other liabilities  |    |               | 2,342,087               |
| <b>Total Liabilities</b>  |    |               | <b>9,658,189</b>        |
| <b>Net Assets</b>   |    |               | <b>\$ 1,671,661,063</b> |
| <b>Net Assets</b>   |    |               |                         |
| Common Stock at par value \$0.001 per share, authorized 150,000,000 shares; issued and outstanding 98,833,094 shares (includes 47,723 restricted shares and 55,784 deferred stock units) (note 7) | \$ | 98,833        |                         |
| Additional capital surplus  |    | 1,088,954,528 |                         |
| Undistributed net investment income   |    | 1,910,428     |                         |
| Undistributed net realized gain   |    | 89,132,392    |                         |
| Unrealized appreciation   |    | 491,564,882   |                         |
| <b>Net Assets Applicable to Common Stock</b>  |    |               | <b>\$ 1,671,661,063</b> |
| <b>Net Asset Value Per Share of Common Stock</b>  |    |               | <b>\$16.91</b>          |

\* See Schedule of Investments beginning on page 17.

The accompanying notes are an integral part of the financial statements.





## STATEMENT OF OPERATIONS

Six Months Ended June 30, 2017

(unaudited)

|   |                       |
|---|-----------------------|
| <b>Investment Income</b>  |                       |
| Income:   |                       |
| Dividends (includes \$349,884 from affiliates and net of \$20,708 in foreign taxes)       | \$ 15,073,867         |
| Interest and other income   | 103,098               |
| <i>Total Income</i>   | 15,176,965            |
| Expenses:   |                       |
| Investment research compensation and benefits   | 2,000,802             |
| Administration and operations compensation and benefits                                   | 1,139,328             |
| Occupancy and other office expenses   | 316,978               |
| Investment data services  | 244,276               |
| Directors' compensation   | 221,250               |
| Accounting, recordkeeping, and other professional fees                                    | 186,646               |
| Shareholder reports and communications  | 175,181               |
| Transfer agent, custody, and listing fees   | 147,897               |
| Insurance   | 64,218                |
| Legal services  | 48,928                |
| Audit and tax services  | 48,060                |
| <i>Total Expenses</i>   | 4,593,564             |
| <b>Net Investment Income</b>  | <b>10,583,401</b>     |
| <b>Realized Gain and Change in Unrealized Appreciation</b>                                |                       |
| Net realized gain on security transactions  | 88,679,067            |
| Net realized gain on total return swap agreements   | 629,997               |
| Net realized gain distributed by non-controlled affiliate                                 | 87,471                |
| Change in unrealized appreciation on investments (includes \$(1,978,558) from affiliates) | 74,824,697            |
| Change in unrealized appreciation on total return swap agreements                         | 1,490,406             |
| <b>Net Gain on Investments</b>  | <b>165,711,638</b>    |
| <b>Change in Net Assets Resulting from Operations</b>                                     | <b>\$ 176,295,039</b> |

The accompanying notes are an integral part of the financial statements.

## STATEMENTS OF CHANGES IN NET ASSETS

|  | (unaudited)<br>Six Months Ended<br>June 30, 2017 | Year Ended<br>December 31, 2016 |
|--|--|---------------------------------|
| <b>From Operations:</b>  |  |                                 |
| Net investment income  | \$ 10,583,401                                    | \$ 18,908,616                   |
| Net realized gain  | 89,396,535                                       | 77,925,100                      |
| Change in unrealized appreciation  | 76,315,103                                       | 20,768,986                      |
| <i>Increase in Net Assets Resulting from Operations</i>  | 176,295,039                                      | 117,602,702                     |
| <b>Distributions to Shareholders from:</b>   |  |                                 |
| Net investment income  | (8,934,088)                                      | (17,520,894)                    |
| Net realized gain  | (993,620)  | (78,538,326)                    |
| <i>Decrease in Net Assets from Distributions</i>   | (9,927,708)                                      | (96,059,220)                    |
| <b>From Capital Share Transactions:</b>  |  |                                 |
| Value of shares issued in payment of distributions (note 5)  | 3,684  | 32,024,245                      |
| Cost of shares purchased (note 5)  | (8,271,474)                                      | (12,436,299)                    |
| Deferred compensation (notes 5, 7)   | 63,795   | 222,142                         |
| <i>Change in Net Assets from Capital Share Transactions</i>  | (8,203,995)                                      | 19,810,088                      |
| <b>Total Increase in Net Assets</b>  | <b>158,163,336</b>                               | <b>41,353,570</b>               |
| <b>Net Assets:</b>   |  |                                 |
| Beginning of period  | 1,513,497,727                                    | 1,472,144,157                   |
| End of period (including undistributed net investment income of \$1,910,428 and \$261,115, respectively) | \$ 1,671,661,063                                 | \$ 1,513,497,727                |

The accompanying notes are an integral part of the financial statements.

## NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

Adams Diversified Equity Fund, Inc. (the Fund) is registered under the Investment Company Act of 1940 (1940 Act) as a diversified investment company. The Fund is an internally-managed closed-end fund whose investment objectives are preservation of capital, the attainment of reasonable income from investments, and an opportunity for capital appreciation.

## 1. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for investment companies, which require the use of estimates by Fund management. Management believes that estimates and valuations are appropriate; however, actual results may differ from those estimates and the valuations reflected in the financial statements may differ from the value the Fund ultimately realizes.

**Affiliates** The 1940 Act defines affiliated companies as those companies in which the Fund owns 5% or more of the outstanding voting securities. Additionally, those companies in which the Fund owns more than 25% of the outstanding voting securities are considered to be controlled by the Fund. The Fund and its affiliates, Adams Natural Resources Fund, Inc. (PEO) and Adams Funds Advisers, LLC (AFA) have a shared management team.

**PEO** The Fund owns 2,186,774 shares of PEO, a non-diversified, closed-end investment company, representing 8% of its outstanding shares. The Fund accounts for PEO as a portfolio investment that meets the definition of a non-controlled affiliate. During 2017, the Fund received dividends and long-term capital gain distributions of \$349,884 and \$87,471, respectively, from its investment in PEO and recognized a change in unrealized appreciation on its investment in PEO of \$(3,214,558). Directors of the Fund are also directors of PEO.

**AFA** In April 2015, Fund shareholders authorized the Fund to provide investment advisory services to external parties, and the Securities and Exchange Commission granted no action relief under section 12(d)(3) of the 1940 Act to allow the Fund to create a separate, wholly-owned entity for this purpose. The Fund provided the initial capital for the start-up costs of AFA, a Maryland limited liability company, and the Fund is the sole member and General Manager, as provided by the Operating Agreement between AFA and the Fund. This structure mitigates the risk of potential liabilities for the Fund associated with any claims that may arise against AFA during the ordinary course of conducting its business. Given that AFA is an operating company that provides no services to the Fund, the Fund accounts for AFA as a portfolio investment that meets the definition of a controlled affiliate.

AFA provides advisory services to an external party. AFA earns advisory fee revenue based on assets under management. AFA's profit can fluctuate due to the level of allocated expenses and assets under management, as driven by the number of client relationships, level of client investment activity, and client investment performance, and will impact the Fund's valuation of its investment in AFA. As of June 30, 2017, AFA had assets under management of \$120 million managed for one client; failure to maintain this existing relationship or to develop new relationships could impact AFA's ability to generate revenue. To the extent that AFA's operating costs exceed its revenue earned, the Fund may be required to provide additional capital to AFA. For tax purposes, AFA's

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

revenues and expenses are consolidated with those of the Fund and, as such, the advisory fee revenue generated by AFA is monitored closely to ensure that it does not exceed an amount that would jeopardize the Fund's status as a regulated investment company. During 2017, the Fund recognized a change in unrealized appreciation on its investment in AFA of \$1,236,000.

**Expenses** The Fund and its affiliates share personnel, systems, and other infrastructure items and are charged a portion of the shared expenses. To protect the Fund from potential conflicts of interest, policies and procedures are in place covering the sharing of expenses among the entities. Expenses solely attributable to an entity are charged to that entity. Expenses that are not solely attributable to one entity are allocated in accordance with the Fund's expense sharing policy. The Fund's policy dictates that expenses, other than those related to personnel, are attributed to AFA based on the average percentage of time spent by all personnel on AFA-related activities relative to overall job functions; the remaining portion is attributed to the Fund and PEO based on relative net assets. Personnel-related expenses are attributed to AFA based on the individual's time spent on AFA-related activities; the remaining portion is attributed to the Fund and PEO based on relative time spent for portfolio managers, relative market values of portfolio securities covered for research staff, and relative net assets for all others. Expense allocations are updated quarterly, except for those related to payroll, which are updated annually. Estimates related to time spent are reviewed on an annual basis, or more frequently if warranted by a change in job function.

For the period ended June 30, 2017, expenses of \$645,671 and \$335,633 were charged to PEO and AFA, respectively, in accordance with the Fund's expense sharing policy. There were no amounts due to, or due from, its affiliates as of June 30, 2017.

**Investment Transactions, Investment Income, and Distributions** The Fund's investment decisions are made by the portfolio management team with recommendations from the research staff. Policies and procedures are in place covering the allocation of investment opportunities among the Fund and its affiliates to protect the Fund from potential conflicts of interest. Investment transactions are accounted for on trade date. Realized gains and losses on sales of investments are recorded on the basis of specific identification. Dividend income and distributions to shareholders are recognized on the ex-dividend date. Interest income is recognized on the accrual basis.

**Valuation** The Fund's financial instruments are reported at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fund has a Valuation Committee (Committee) so that financial instruments are appropriately priced at fair value in accordance with GAAP and the 1940 Act. Subject to oversight by the Board of Directors, the Committee establishes methodologies and procedures to value securities for which market quotations are not readily available.

GAAP establishes the following fair value hierarchy that categorizes the inputs used to measure fair value:

- Level 1 fair value is determined based on market data obtained from independent sources; for example, quoted prices in active markets for identical investments;
- Level 2 fair value is determined using other assumptions obtained from independent sources; for example, quoted prices for similar investments;
- Level 3 fair value is determined using the Fund's own assumptions, developed based on the best information available under the circumstances.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Investments in securities traded on national security exchanges are valued at the last reported sale price as of the close of regular trading on the relevant exchange on the day of valuation. Over-the-counter and listed securities for which a sale price is not available are valued at the last quoted bid price. Money market funds are valued at net asset value. These securities are generally categorized as Level 1 in the hierarchy.

Short-term investments (excluding money market funds) are valued at amortized cost, which approximates fair value. Total return swap agreements are valued using independent, observable inputs, including underlying security prices, dividends, and interest rates. These securities are generally categorized as Level 2 in the hierarchy.

The Fund's investment in its controlled affiliate, AFA, is valued by methods deemed reasonable in good faith by the Committee. The Committee uses market-based valuation multiples, including price-to-earnings and price-to-book value, and discounted free cash flow analysis, or a combination thereof, to estimate fair value. The Committee also considers discounts for illiquid investments, such as AFA. Fair value determinations are reviewed on a regular basis and updated as needed. Due to the inherent uncertainty of the value of Level 3 assets, estimated fair value may differ significantly from the value that would have been used had an active market existed. Any change in the estimated fair value of Level 3 investments is recognized in the Fund's Statement of Operations in *Change in unrealized appreciation on investments*. Given the absence of market quotations or observable inputs, the investment in AFA is categorized as Level 3 in the hierarchy.

At June 30, 2017, the Fund's financial instruments were classified as follows:

|                               | Level 1                 | Level 2    | Level 3             | Total                   |
|-------------------------------|-------------------------|------------|---------------------|-------------------------|
| <b>Assets:</b>                |                         |            |                     |                         |
| Common stocks                 | \$ 1,651,947,909        | \$         | \$                  | \$ 1,651,947,909        |
| Other investments             |                         |            | 1,469,000           | 1,469,000               |
| Short-term investments        | 18,355,707              |            |                     | 18,355,707              |
| Securities lending collateral | 67,450                  |            |                     | 67,450                  |
| <b>Total investments</b>      | <b>\$ 1,670,371,066</b> | <b>\$</b>  | <b>\$ 1,469,000</b> | <b>\$ 1,671,840,066</b> |
| Total return swap agreements* | \$                      | \$ 128,890 | \$                  | \$ 128,890              |

\* Unrealized appreciation (depreciation)

The following is a reconciliation of the change in the value of Level 3 investments:

|  |              |
|--|--------------|
| Balance as of December 31, 2016                  | \$ 233,000   |
| Purchases  |              |
| Change in unrealized appreciation of investments | 1,236,000    |
| Balance as of June 30, 2017                      | \$ 1,469,000 |

There were no transfers between levels during the period ended June 30, 2017.

**Recent Accounting Pronouncement** In October 2016, the U.S. Securities and Exchange Commission adopted new rules and amended existing rules (together, the final rules ) intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The compliance date for the



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

amendments to Regulation S-X is August 1, 2017. Management is currently evaluating the impact that the adoption of the amendments to Regulation S-X will have on the Fund's financial statements and related disclosures.

## 2. FEDERAL INCOME TAXES

No federal income tax provision is required since the Fund's policy is to qualify as a regulated investment company under the Internal Revenue Code and to distribute substantially all of its taxable income and gains to its shareholders. Additionally, management has analyzed and concluded that tax positions included in federal income tax returns from the previous three years that remain subject to examination do not require any provision. Any income tax-related interest or penalties would be recognized as income tax expense. As of June 30, 2017, the identified cost of securities for federal income tax purposes was \$1,180,429,260 and net unrealized appreciation aggregated \$491,410,806, consisting of gross unrealized appreciation of \$502,901,441 and gross unrealized depreciation of \$11,490,635.

Distributions are determined in accordance with the Fund's annual 6% minimum distribution rate commitment, based on the Fund's average market price, and income tax regulations, which may differ from generally accepted accounting principles. Such differences are primarily related to the Fund's retirement plans, equity-based compensation, and investment in AFA. Differences that are permanent are reclassified in the capital accounts of the Fund's financial statements and have no impact on net assets.

## 3. INVESTMENT TRANSACTIONS

Purchases and sales of portfolio investments, other than short-term investments and derivative transactions, during the period ended June 30, 2017 were \$396,551,728 and \$388,073,172, respectively.

## 4. DERIVATIVES

During the period ended June 30, 2017, the Fund invested in derivative instruments. The Fund may use derivatives for a variety of purposes, including, but not limited to, the ability to obtain leverage, to gain or limit exposure to particular market sectors or securities, to provide additional income, and/or to limit equity price risk in the normal course of pursuing its investment objectives. The financial derivative instruments outstanding as of period-end and the amounts of realized gains and losses and changes in unrealized gains and losses on financial derivative instruments during the period indicate the volume of financial derivative activity for the period.

**Total Return Swap Agreements** The Fund may use total return swap agreements to manage exposure to certain risks and/or to enhance performance. Total return swap agreements are bilateral contracts between the Fund and a counterparty in which the Fund, in the case of a long contract, agrees to receive the positive total return (and pay the negative total return) of an underlying equity security and to receive or pay a financing amount, based on a notional amount and a referenced interest rate, over the term of the contract. In the case of a short contract, the Fund agrees to pay the positive total return (and receive the negative total return) of the underlying equity security and to receive or pay a financing rate, based on a notional amount and a referenced interest rate, over the term of the contract. The fair value of each total return swap agreement is

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

determined daily with the change in the fair value recorded as an unrealized gain or loss in the Statement of Operations. Upon termination of a swap agreement, the Fund recognizes a realized gain (loss) on total return swap agreements in the Statement of Operations equal to the net receivable (payable) amount under the terms of the agreement.

Total return swap agreements entail risks associated with counterparty credit, liquidity, and equity price risk. Such risks include that the Fund or the counterparty may default on its obligation, that there is no liquid market for these agreements, and that there may be unfavorable changes in the price of the underlying equity security. To mitigate the Fund's counterparty credit risk, the Fund enters into master netting and collateral arrangements with the counterparty. A master netting agreement allows either party to terminate the contract prior to termination date and to net amounts due across multiple contracts upon settlement, providing for a single net settlement with a counterparty. Pursuant to master netting arrangements, the net cumulative unrealized gain (asset) on open total return swap agreements and net cumulative unrealized loss (liability) on open total return swap agreements are presented in the Statement of Assets and Liabilities. The Fund's policy is to net all derivative instruments subject to a netting agreement. The fair value of each outstanding total return swap contract is presented on the Schedule of Investments.

A collateral arrangement requires each party to provide collateral with a value, adjusted daily and subject to a minimum transfer amount, equal to the net amount owed to the other party under the contract. The counterparty provides cash collateral to the Fund and the Fund provides collateral by segregating portfolio securities, subject to a valuation allowance, into a tri-party account at its custodian. As of June 30, 2017, no securities were pledged by the Fund and no cash collateral was held by the Fund.

## 5. CAPITAL STOCK

The Fund has 10,000,000 authorized and unissued preferred shares, \$0.001 par value.

During the period ended June 30, 2017, the Fund issued 261 shares of its Common Stock at a weighted average price of \$14.13 per share as dividend equivalents to holders of deferred stock units under the 2005 Equity Income Compensation Plan.

On December 28, 2016, the Fund issued 2,516,928 shares of its Common Stock at a price of \$12.71 per share (the average market price on December 12, 2016) to shareholders of record on November 25, 2016, who elected to take stock in payment of the year-end distribution from 2016 capital gain and investment income. During 2016, the Fund issued 2,684 shares of its Common Stock at a weighted average price of \$12.71 per share as dividend equivalents to holders of deferred stock units under the 2005 Equity Income Compensation Plan.

The Fund may purchase shares of its Common Stock from time to time, in accordance with parameters set by the Board of Directors, at such prices and amounts as the

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

portfolio management team may deem appropriate. Transactions in Common Stock for 2017 and 2016 were as follows:

|   | Shares                         |                              | Amount                         |                              |
|---|--------------------------------|------------------------------|--------------------------------|------------------------------|
|   | Six months ended June 30, 2017 | Year ended December 31, 2016 | Six months ended June 30, 2017 | Year ended December 31, 2016 |
| Shares issued in payment of distributions   | 261                            | 2,519,612                    | \$ 3,684                       | \$ 32,024,245                |
| Shares purchased (at a weighted average discount from net asset value of 15.6% and 15.8%, respectively) | (596,561)                      | (974,904)                    | (8,271,474)                    | (12,436,299)                 |
| Net activity under the 2005 Equity Incentive Compensation Plan  | (7,430)                        | (21,830)                     | 63,795                         | 222,142                      |
| Net change  | (603,730)                      | 1,522,878                    | \$ (8,203,995)                 | \$ 19,810,088                |

## 6. RETIREMENT PLANS

The Fund sponsors a qualified defined contribution plan for all employees with at least six months of service and a nonqualified defined contribution plan for eligible employees to supplement the qualified plan. The Fund matches employee contributions made to the plans and, subject to Board approval, may also make a discretionary contribution to the plans. During 2017, the Fund recorded matching contributions of \$195,278. As of June 30, 2017, the Fund recorded a liability in the amount of \$99,085, included in *Accrued expenses and other liabilities* in the accompanying Statement of Assets and Liabilities, representing the 2017 discretionary contribution.

## 7. EQUITY-BASED COMPENSATION

The Fund's 2005 Equity Incentive Compensation Plan, adopted at the 2005 Annual Meeting and reapproved at the 2010 Annual Meeting, expired on April 27, 2015. Restricted stock awards granted prior to the Plan's expiration remain outstanding as of June 30, 2017 and vest on various dates through September 2, 2018, provided the service condition set forth in the award at grant is satisfied. Also outstanding are restricted stock units granted to nonemployee directors that are 100% vested, but payment of which has been deferred at the election of the director.

Outstanding awards were granted at fair market value on grant date (determined by the average of the high and low price on that date). Awards earn an amount equal to the Fund's per share distribution, payable in either cash (employees) or reinvested shares (non-employee directors). Reinvested shares are fully vested and paid concurrently with

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

the payment of the original share grant. A summary of the activity related to nonvested restricted shares and deferred stock units for the period ended June 30, 2017 is as follows:

| Awards                          | Shares/Units | Weighted Average<br>Grant-Date Fair Value |
|---------------------------------|--------------|---|
| Balance at December 31, 2016    | 138,666      | \$ 12.76                                  |
| Reinvested dividend equivalents | 261          | 14.13                                     |
| Vested & issued                 | (35,420)     | 13.00                                     |
| Balance at June 30, 2017        | 103,507      | \$ 12.68                                  |

Compensation cost is based on the fair market value of the award on grant date and recognized on a straight-line basis over the vesting period. Any compensation cost recognized related to an award that is subsequently forfeited due to unmet service conditions is reversed. Total compensation cost related to equity-based compensation for the period ended June 30, 2017 was \$160,965. As of June 30, 2017, the Fund had unrecognized compensation cost of \$110,820, a component of additional capital surplus, related to nonvested awards that will be recognized over a weighted average period of 0.50 years. The total fair value of awards vested and issued during the period ended June 30, 2017 was \$461,077.

## 8. OFFICER AND DIRECTOR COMPENSATION

The aggregate remuneration paid by the Fund during the period ended June 30, 2017 to officers and directors amounted to \$3,751,274, of which \$221,250 was paid to directors who were not officers. These amounts represent the taxable income to the Fund's officers and directors and, therefore, may differ from the amounts reported in the accompanying Statement of Operations that are recorded and expensed in accordance with GAAP.

## 9. PORTFOLIO SECURITIES LOANED

The Fund makes loans of securities to approved brokers to earn additional income. It receives as collateral cash deposits valued at 102% of the value of the securities on loan. The market value of the loaned securities is calculated based upon the most recent closing prices and any additional required collateral is delivered to the Fund on the next business day. Cash deposits are placed in a registered money market fund. The Fund accounts for securities lending transactions as secured financing and retains a portion of the income from lending fees and interest on the investment of cash collateral. The Fund also continues to receive dividends on the securities loaned. Gain or loss in the fair value of the securities loaned that may occur during the term of the loan will be for the account of the Fund. At June 30, 2017, the Fund had securities on loan of \$66,131 and held cash collateral of \$67,450. The Fund is indemnified by the Custodian, serving as lending agent, for the loss of loaned securities and has the right under the lending agreement to recover the securities from the borrower on demand.

## 10. OPERATING LEASE COMMITMENTS

The Fund and its affiliates lease office space and equipment under operating lease agreements expiring at various dates through the year 2026. The Fund recognized



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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

rental expense of \$144,642 for the period ended June 30, 2017, and its estimated portion of the minimum rental commitments are as follows:

|                   |              |
|-------------------|--------------|
| Remainder of 2017 | \$ 159,410   |
| 2018              | 326,096      |
| 2019              | 257,335      |
| 2020              | 261,687      |
| 2021              | 256,866      |
| Thereafter        | 1,358,265    |
| Total             | \$ 2,619,659 |

## FINANCIAL HIGHLIGHTS

|  | (unaudited)<br>Six Months Ended |                  | 2016           | Year Ended December 31 |                |                | 2012           |
|--|---------------------------------|------------------|----------------|------------------------|----------------|----------------|----------------|
|  | June 30,<br>2017                | June 30,<br>2016 |                | 2015                   | 2014           | 2013           |                |
| <b>Per Share Operating Performance</b>                   |                                 |                  |                |                        |                |                |                |
| Net asset value, beginning of period                     | \$15.22                         | \$15.04          | \$15.04        | \$15.87                | \$15.09        | \$12.43        | \$11.54        |
| Net investment income                                    | 0.11                            | 0.09             | 0.19           | 0.13                   | 0.20           | 0.20           | 0.19           |
| Net realized gain and change in unrealized appreciation  | 1.66                            | 0.06             | 1.03           |                        | 1.83           | 3.32           | 1.41           |
| Change in accumulated other comprehensive income         |                                 |                  |                | 0.02                   | (0.01)         | 0.01           |                |
| <b>Total from operations</b>                             | <b>1.77</b>                     | <b>0.15</b>      | <b>1.22</b>    | <b>0.15</b>            | <b>2.02</b>    | <b>3.53</b>    | <b>1.60</b>    |
| Less distributions from:                                 |                                 |                  |                |                        |                |                |                |
| Net investment income                                    | (0.09)                          | (0.08)           | (0.18)         | (0.14)                 | (0.20)         | (0.22)         | (0.18)         |
| Net realized gain  | (0.01)                          | (0.02)           | (0.81)         | (0.79)                 | (0.98)         | (0.62)         | (0.49)         |
| <b>Total distributions</b>                               | <b>(0.10)</b>                   | <b>(0.10)</b>    | <b>(0.99)</b>  | <b>(0.93)</b>          | <b>(1.18)</b>  | <b>(0.84)</b>  | <b>(0.67)</b>  |
| Capital share repurchases (note 5)                       | 0.02                            | 0.01             | 0.02           | 0.02                   | 0.02           | 0.02           |                |
| Reinvestment of distributions                            |                                 |                  | (0.07)         | (0.07)                 | (0.08)         | (0.05)         | (0.04)         |
| <b>Total capital share transactions</b>                  | <b>0.02</b>                     | <b>0.01</b>      | <b>(0.05)</b>  | <b>(0.05)</b>          | <b>(0.06)</b>  | <b>(0.03)</b>  | <b>(0.04)</b>  |
| <b>Net asset value, end of period</b>                    | <b>\$16.91</b>                  | <b>\$15.10</b>   | <b>\$15.22</b> | <b>\$15.04</b>         | <b>\$15.87</b> | <b>\$15.09</b> | <b>\$12.43</b> |
| Market price, end of period                              | \$14.29                         | \$12.67          | \$12.71        | \$12.83                | \$13.68        | \$13.07        | \$10.59        |
| <b>Total Investment Return*</b>                          |                                 |                  |                |                        |                |                |                |
| Based on market price                                    | 13.2%                           | (0.5)%           | 6.9%           | 0.7%                   | 13.7%          | 31.8%          | 16.9%          |
| Based on net asset value                                 | 11.9%                           | 1.2%             | 9.2%           | 1.8%                   | 14.3%          | 29.7%          | 14.7%          |
| <b>Ratios/Supplemental Data**</b>                        |                                 |                  |                |                        |                |                |                |
| Net assets, end of period (in millions)                  | \$1,672                         | \$1,470          | \$1,513        | \$1,472                | \$1,528        | \$1,422        | \$1,156        |
| Ratio of expenses to average net assets                  | 0.57%                           | 0.64%            | 0.64%          | 0.96%                  | 0.58%          | 0.69%          | 0.65%          |
| Ratio of net investment income to average net assets     | 1.32%                           | 1.20%            | 1.29%          | 0.79%                  | 1.29%          | 1.44%          | 1.54%          |
| Portfolio turnover                                       | 48.8%                           | 21.1%            | 32.0%          | 22.0%                  | 26.6%          | 55.9%          | 27.4%          |
| Number of shares outstanding at end of period (in 000 s) | 98,833                          | 97,363           | 99,437         | 97,914                 | 96,287         | 94,224         | 93,030         |

\* Total investment return assumes reinvestment of all distributions at the price received in the Fund's dividend reinvestment plan.

\*\* Ratios and portfolio turnover presented on an annualized basis.

Ratios of expenses to average net assets were 0.67%, 0.63%, and 0.63% in 2015, 2013, and 2012, respectively, after adjusting for non-recurring pension-related settlement charges. The adjusted ratios of net investment income to average net assets were 1.08%, 1.50%, and 1.56% in 2015, 2013, and 2012, respectively.

## SCHEDULE OF INVESTMENTS

June 30, 2017

(unaudited)

|  | Shares    | Value (A)     |
|--|-----------|---------------|
| <b>Common Stocks 98.8%</b>             |           |               |
| <b>Consumer Discretionary 12.0%</b>    |           |               |
| Amazon.com, Inc. (C)                   | 44,100    | \$ 42,688,800 |
| Comcast Corp. (Class A)                | 1,009,000 | 39,270,280    |
| Dollar General Corp.                   | 149,637   | 10,787,331    |
| Home Depot, Inc.                       | 177,400   | 27,213,160    |
| Lowe's Companies, Inc.                 | 298,400   | 23,134,952    |
| Magna International Inc.               | 252,000   | 11,675,160    |
| Priceline Group Inc. (C)               | 10,300    | 19,266,356    |
| Starbucks Corporation                  | 251,300   | 14,653,303    |
| Walt Disney Co.                        | 117,000   | 12,431,250    |
|  |           | 201,120,592   |
| <b>Consumer Staples 9.0%</b>           |           |               |
| Altria Group, Inc.                     | 273,300   | 20,352,651    |
| Coca-Cola Co.                          | 186,000   | 8,342,100     |
| Costco Wholesale Corp.                 | 45,200    | 7,228,836     |
| CVS Health Corp.                       | 247,400   | 19,905,804    |
| PepsiCo, Inc.                          | 230,400   | 26,608,896    |
| Philip Morris International Inc.       | 295,300   | 34,682,985    |
| Procter & Gamble Co.                   | 131,850   | 11,490,727    |
| Walmart Stores, Inc.                   | 292,400   | 22,128,832    |
|  |           | 150,740,831   |
| <b>Energy 6.5%</b>                     |           |               |
| Adams Natural Resources Fund, Inc. (D) | 2,186,774 | 40,892,674    |
| Concho Resources Inc. (C)              | 72,900    | 8,859,537     |
| Exxon Mobil Corp.                      | 358,300   | 28,925,559    |
| Halliburton Co.                        | 354,400   | 15,136,424    |
| Marathon Petroleum Corp.               | 125,200   | 6,551,716     |
| Pioneer Natural Resources Co.          | 57,800    | 9,223,724     |
|  |           | 109,589,634   |
| <b>Financials 14.8%</b>                |           |               |
| American Express Co.                   | 378,300   | 31,867,992    |
| American International Group, Inc.     | 386,600   | 24,170,232    |
| Bank of America Corp.                  | 1,371,600 | 33,275,016    |
| BlackRock, Inc.                        | 41,400    | 17,487,774    |
| Chubb Ltd.                             | 78,800    | 11,455,944    |
| Citigroup Inc.                         | 345,600   | 23,113,728    |
| Intercontinental Exchange, Inc.        | 379,900   | 25,043,008    |
| JPMorgan Chase & Co.                   | 178,200   | 16,287,480    |
| Prudential Financial, Inc.             | 129,400   | 13,993,316    |
| SunTrust Banks, Inc.                   | 378,100   | 21,445,832    |
| Wells Fargo & Co.                      | 518,200   | 28,713,462    |





## SCHEDULE OF INVESTMENTS (CONTINUED)

|  | Shares  | Value (A)     |
|--|---------|---------------|
| <b>Health Care 13.5%</b>                 |         |               |
| AbbVie, Inc.                             | 380,000 | \$ 27,553,800 |
| Aetna Inc.                               | 183,900 | 27,921,537    |
| Allergan plc                             | 107,096 | 26,033,967    |
| Amgen Inc.                               | 127,000 | 21,873,210    |
| Health Care Select Sector SPDR Fund      | 123,300 | 9,770,292     |
| Johnson & Johnson                        | 241,900 | 32,000,951    |
| McKesson Corp.                           | 124,000 | 20,402,960    |
| Pfizer Inc.                              | 702,940 | 23,611,754    |
| Thermo Fisher Scientific Inc.            | 145,400 | 25,367,938    |
| Waters Corp. (C)                         | 62,200  | 11,434,848    |
|  |         | 225,971,257   |
| <b>Industrials 10.0%</b>                 |         |               |
| Boeing Co.                               | 134,400 | 26,577,600    |
| Cummins Inc.                             | 107,700 | 17,471,094    |
| Delta Air Lines, Inc.                    | 282,200 | 15,165,428    |
| Fortive Corp.                            | 279,700 | 17,718,995    |
| General Electric Co.                     | 510,600 | 13,791,306    |
| Honeywell International Inc.             | 159,500 | 21,259,755    |
| Industrial Select Sector SPDR Fund       | 123,800 | 8,432,018     |
| Parker-Hannifin Corp.                    | 103,400 | 16,525,388    |
| Union Pacific Corp.                      | 278,000 | 30,276,980    |
|  |         | 167,218,564   |
| <b>Information Technology 23.0%</b>      |         |               |
| Adobe Systems Inc. (C)                   | 145,900 | 20,636,096    |
| Alphabet Inc. (Class A) (C)              | 35,500  | 33,003,640    |
| Alphabet Inc. (Class C) (C)              | 29,597  | 26,895,682    |
| Apple Inc.                               | 480,500 | 69,201,610    |
| Broadcom Ltd.                            | 88,800  | 20,694,840    |
| Cisco Systems, Inc.                      | 271,900 | 8,510,470     |
| DXC Technology Co.                       | 143,000 | 10,970,960    |
| Facebook, Inc. (Class A) (C)             | 303,300 | 45,792,234    |
| Lam Research Corp.                       | 99,800  | 14,114,714    |
| MasterCard, Inc. (Class A)               | 187,000 | 22,711,150    |
| Microsoft Corp.                          | 836,800 | 57,680,624    |
| Oracle Corp.                             | 122,200 | 6,127,108     |
| salesforce.com, inc. (C)                 | 200,200 | 17,337,320    |
| Visa Inc. (Class A)                      | 322,000 | 30,197,160    |
|  |         | 383,873,608   |
| <b>Materials 2.0%</b>                    |         |               |
| Dow Chemical Co.                         | 277,200 | 17,483,004    |
| LyondellBasell Industries N.V. (Class A) | 186,000 | 15,696,540    |
|  |         | 33,179,544    |
| <b>Real Estate 3.7%</b>                  |         |               |
| American Tower Corp.                     | 85,900  | 11,366,288    |
| AvalonBay Communities, Inc. (B)          | 53,800  | 10,338,746    |
| Prologis, Inc.                           | 351,600 | 20,617,824    |
| SBA Communications Corp. (Class A) (C)   | 46,800  | 6,313,320     |

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|                            |        |            |
|----------------------------|--------|------------|
| Simon Property Group, Inc. | 77,000 | 12,455,520 |
|                            |        | 61,091,698 |

## SCHEDULE OF INVESTMENTS (CONTINUED)

|   | Shares     | Value (A)        |
|---|------------|------------------|
| <b>Telecommunication Services 1.4%</b>  |            |                  |
| AT&T Inc.   | 262,200    | \$ 9,892,806     |
| T-Mobile USA, Inc. (C)  | 98,200     | 5,952,884        |
| Verizon Communications Inc.   | 171,600    | 7,663,656        |
|   |            | 23,509,346       |
| <b>Utilities 2.9%</b>   |            |                  |
| CenterPoint Energy, Inc.  | 401,000    | 10,979,380       |
| Edison International (B)  | 130,300    | 10,188,157       |
| NextEra Energy, Inc.  | 111,800    | 15,666,534       |
| Pinnacle West Capital Corp.   | 140,500    | 11,964,980       |
|   |            | 48,799,051       |
| <b>Total Common Stocks</b><br>(Cost \$1,161,830,917)  |            | 1,651,947,909    |
| <b>Other Investments 0.1%</b>   |            |                  |
| <b>Financials 0.1%</b><br>Adams Funds Advisers, LLC (C)(E)<br>(Cost \$150,000)  |            | 1,469,000        |
| <b>Short-Term Investments 1.1%</b>  |            |                  |
| <b>Money Market Funds 1.1%</b><br>Fidelity Institutional Money Market Money Market Portfolio (Institutional Class), 1.18% (F) | 5,000,000  | 5,000,000        |
| Northern Institutional Treasury Portfolio, 0.86% (F)  | 13,355,707 | 13,355,707       |
| <b>Total Short-Term Investments</b><br>(Cost \$18,355,707)  |            | 18,355,707       |
| <b>Securities Lending Collateral 0.0%</b><br>(Cost \$67,450)  |            |                  |
| <b>Money Market Funds 0.0%</b><br>Northern Institutional Funds Liquid Assets Portfolio, 0.99% (F)                             | 67,450     | 67,450           |
| <b>Total Investments 100.0% of Net Assets</b><br>(Cost \$1,180,404,074)   |            | \$ 1,671,840,066 |

| <b>Total Return Swap Agreements 0.0%</b>   | Type of Contract | Counterparty   | Termination Date | Notional Amount | Unrealized Appreciation (Assets) | Unrealized Depreciation (Liabilities) |
|--|------------------|----------------|------------------|-----------------|----------------------------------|---------------------------------------|
| Receive positive total return (pay negative total return) on 96,000 shares of Berkshire Hathaway Inc. Class B common stock and pay financing amount based on notional amount and daily U.S. Federal Funds rate plus 0.55%. | Long             | Morgan Stanley | 3/7/2018         | \$ 15,735,946   | \$ 432,227                       | \$                                    |
| Receive negative total return (pay positive total return) on 664,400 shares of Financial Select Sector SPDR Fund and receive financing amount based on notional amount and daily U.S. Federal Funds rate less 0.45%.       | Short            | Morgan Stanley | 3/7/2018         | (15,712,994)    |                                  | (772,731)                             |



## SCHEDULE OF INVESTMENTS (CONTINUED)

| <b>Total Return Swap Agreements (continued)</b>  | <b>Type of Contract</b> | <b>Counterparty</b> | <b>Termination Date</b> | <b>Notional Amount</b> | <b>Unrealized Appreciation (Assets)</b> | <b>Unrealized Depreciation (Liabilities)</b> |
|--|-------------------------|---------------------|-------------------------|------------------------|---|--|
| Receive positive total return (pay negative total return) on 261,700 shares of QUALCOMM Inc. common stock and pay financing amount based on notional amount and daily U.S. Federal Funds rate plus 0.55%.                  | Long                    | Morgan Stanley      | 7/12/2018               | 15,179,097             | \$                                      | \$ (743,763)                                 |
| Receive negative total return (pay positive total return) on 170,700 shares of VanEck Vectors Semiconductor ETF and pay financing amount based on notional amount and daily U.S. Federal Funds rate less 1.66%.            | Short                   | Morgan Stanley      | 7/12/2018               | (15,148,345)           | 1,169,162                               |  |
| Receive positive total return (pay negative total return) on 64,600 shares of F5 Networks, Inc. common stock and pay financing amount based on notional amount and daily U.S. Federal Funds rate plus 0.55%.               | Long                    | Morgan Stanley      | 7/13/2018               | 8,350,597              |   | (150,804)                                    |
| Receive negative total return (pay positive total return) on 148,000 shares of Technology Select Sector SPDR Fund and receive financing amount based on notional amount and daily U.S. Federal Funds rate less 0.56%.      | Short                   | Morgan Stanley      | 7/13/2018               | (8,301,527)            | 172,547                                 |  |
| Receive positive total return (pay negative total return) on 23,100 shares of Costco Wholesale Corp. common stock and pay financing amount based on notional amount and daily U.S. Federal Funds rate plus 0.55%.          | Long                    | Morgan Stanley      | 8/2/2018                | 3,684,877              | 9,331                                   |  |
| Receive negative total return (pay positive total return) on 66,700 shares of Consumer Staples Select Sector SPDR Fund and receive financing amount based on notional amount and daily U.S. Federal Funds rate less 0.76%. | Short                   | Morgan Stanley      | 8/2/2018                | (3,677,378)            | 12,921                                  |  |
| <b>Gross unrealized gain (loss) on open total return swap agreements</b>   |                         |                     |                         |                        | \$ 1,796,188                            | \$ (1,667,298)                               |
| <b>Net unrealized gain on open total return swap agreements (G)</b>  |                         |                     |                         |                        | \$ 128,890                              |  |

## Notes:

- (A) Common stocks are listed on the New York Stock Exchange or the NASDAQ and are valued at the last reported sale price on the day of valuation. See note 1 to financial statements.
- (B) All or a portion of shares held are on loan. See note 9 to financial statements.
- (C) Presently non-dividend paying.
- (D) Non-controlled affiliate, a closed-end sector fund, registered as an investment company under the Investment Company Act of 1940.
- (E) Controlled affiliate valued using fair value procedures.
- (F) Rate presented is as of period-end and represents the annualized yield earned over the previous seven days.
- (G) Value is disclosed on the Statement of Assets and Liabilities under the caption *Net unrealized gain on open total return swap agreements*.

## PRINCIPAL CHANGES IN PORTFOLIO SECURITIES

During the six months ended June 30, 2017 (unaudited)

|  | Purchases<br>(Cost) | Sales<br>(Proceeds) | Market Value Held<br>June 30, 2017 |
|--|---------------------|---------------------|------------------------------------|
| Altria Group, Inc.                             | \$ 20,265,275       |                     | \$ 20,352,651                      |
| American Express Co.                           | 17,025,934          |                     | 31,867,992                         |
| American International Group, Inc.             | 6,454,767           |                     | 24,170,232                         |
| AT&T Inc.                                      | 10,079,414          |                     | 9,892,806                          |
| Bank of America                                | 5,664,003           |                     | 33,275,016                         |
| Citigroup Inc.                                 | 21,611,706          |                     | 23,113,728                         |
| Consumer Staples Select Sector SPDR Fund       | 18,889,190          | \$ 19,249,078       |                                    |
| Costco Wholesale Corp.                         | 7,248,652           |                     | 7,228,836                          |
| Cummins Inc.                                   | 16,327,735          |                     | 17,471,094                         |
| Dow Chemical Co.                               | 8,939,978           |                     | 17,483,004                         |
| DXC Technology Co.                             | 9,745,189           |                     | 10,970,960                         |
| Energy Select Sector SPDR Fund                 | 6,657,315           | 6,505,402           |                                    |
| Fortive Corp.                                  | 16,272,286          |                     | 17,718,995                         |
| General Electric Co.                           | 7,960,969           |                     | 13,791,306                         |
| Health Care Select Sector SPDR Fund            | 14,374,619          | 8,803,492           | 9,770,292                          |
| Home Depot, Inc.                               | 25,963,308          |                     | 27,213,160                         |
| Industrial Select Sector SPDR Fund             | 23,982,795          | 24,767,823          | 8,432,018                          |
| Johnson & Johnson                              | 21,934,762          |                     | 32,000,951                         |
| McKesson Corp.                                 | 20,623,578          |                     | 20,402,960                         |
| Parker-Hannifin Corp.                          | 16,099,538          |                     | 16,525,388                         |
| Pioneer Natural Resources Co.                  | 9,598,742           |                     | 9,223,724                          |
| Post Holdings, Inc.                            | 12,108,216          | 10,719,753          |                                    |
| Prologis, Inc.                                 | 18,498,722          |                     | 20,617,824                         |
| salesforce.com, inc.                           | 15,709,694          |                     | 17,337,320                         |
| SunTrust Banks, Inc.                           | 21,711,922          |                     | 21,445,832                         |
| T-Mobile USA, Inc.                             | 6,652,962           |                     | 5,952,884                          |
| Wells Fargo & Co.                              | 5,230,736           | 12,892,401          | 28,713,462                         |
| Anadarko Petroleum Corp.                       |                     | 9,836,134           |                                    |
| Biogen Inc.                                    |                     | 11,831,278          |                                    |
| BlackRock, Inc.                                |                     | 6,469,623           | 17,487,774                         |
| Boeing Co.                                     |                     | 12,570,537          | 26,577,600                         |
| Chubb Ltd.                                     |                     | 11,556,955          | 11,455,944                         |
| Cisco Systems, Inc.                            |                     | 5,342,803           | 8,510,470                          |
| Coca-Cola Co.                                  |                     | 11,741,236          | 8,342,100                          |
| Consumer Discretionary Select Sector SPDR Fund |                     | 6,772,840           |                                    |
| Dover Corp.                                    |                     | 11,827,167          |                                    |
| Edwards Lifesciences Corp.                     |                     | 14,384,978          |                                    |
| FedEx Corp.                                    |                     | 15,512,822          |                                    |
| Goldman Sachs Group, Inc.                      |                     | 23,706,604          |                                    |
| Hewlett Packard Enterprise Co.                 |                     | 6,166,171           |                                    |
| Honeywell International Inc.                   |                     | 5,876,799           | 21,259,755                         |
| JPMorgan Chase & Co.                           |                     | 5,680,655           | 16,287,480                         |
| Lowe's Companies, Inc.                         |                     | 8,006,455           | 23,134,952                         |
| Merck & Co., Inc.                              |                     | 21,998,968          |                                    |
| PPG Industries, Inc.                           |                     | 8,787,856           |                                    |
| Prudential Financial, Inc.                     |                     | 6,603,158           | 13,993,316                         |
| Raymond James Financial, Inc.                  |                     | 8,081,385           |                                    |
| Robert Half International, Inc.                |                     | 9,934,172           |                                    |
| SPDR S&P Regional Banking ETF                  |                     | 9,561,980           |                                    |
| Spectrum Brands Holdings, Inc.                 |                     | 11,831,764          |                                    |
| Verizon Communications Inc.                    |                     | 10,005,450          | 7,663,656                          |
| Walt Disney Co.                                |                     | 7,297,907           | 12,431,250                         |

*Note: The transactions presented above are those purchases or sales during the period that exceeded .30% of period-end net assets.*



## HISTORICAL FINANCIAL STATISTICS

(unaudited)

| Year          | (000 s)      | (000 s)     | Net Asset | Market    | Income    | Capital   | Total       |               | Annual       |
|---------------|--------------|-------------|-----------|-----------|-----------|-----------|-------------|---------------|--------------|
|               | Value Of     | Shares      | Value Per | Value     | Dividends | Gains     | Dividends   | and           |              |
|               | Net Assets   | Outstanding | Share     | Per Share | Per Share | Per Share | Return of   | Distributions | Distribution |
|               |              |             |           |           |           |           | Capital Per | Per Share     | Rate*        |
| 2007          | \$ 1,378,480 | 87,669      | \$ 15.72  | \$ 14.12  | \$ .32    | \$ .71    | \$          | \$ 1.03       | 7.1%         |
| 2008          | 840,012      | 87,406      | 9.61      | 8.03      | .26       | .38       |             | .64           | 5.7          |
| 2009          | 1,045,027    | 87,415      | 11.95     | 10.10     | .15       | .30       |             | .45           | 5.2          |
| 2010          | 1,124,672    | 88,885      | 12.65     | 10.72     | .14       | .37       |             | .51           | 5.1          |
| 2011          | 1,050,734    | 91,074      | 11.54     | 9.64      | .15       | .50       |             | .65           | 6.1          |
| 2012          | 1,155,997    | 93,030      | 12.43     | 10.59     | .18       | .49       |             | .67           | 6.3          |
| 2013          | 1,421,551    | 94,224      | 15.09     | 13.07     | .22       | .62       |             | .84           | 7.1          |
| 2014          | 1,527,773    | 96,287      | 15.87     | 13.68     | .20       | .98       |             | 1.18          | 8.8          |
| 2015          | 1,472,144    | 97,914      | 15.04     | 12.83     | .14       | .79       |             | .93           | 6.8          |
| 2016          | 1,513,498    | 99,437      | 15.22     | 12.71     | .18       | .81       |             | .99           | 7.8          |
| June 30, 2017 | 1,671,661    | 98,833      | 16.91     | 14.29     | .14       | .01       |             | .15           |              |

\* The annual distribution rate is the total dividends and distributions per share divided by the Fund's average month-end stock price. For years prior to 2011, the average month-end stock price is determined for the calendar year. For 2011 and later, the average month-end stock price is determined for the twelve months ended October 31, which is consistent with the calculation used for the annual 6% minimum distribution rate commitment adopted in September 2011.  
Paid or declared

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders was held on April 21, 2017. The following votes were cast for directors:

|                       | <b>Votes For</b> | <b>Votes Withheld</b> |
|-----------------------|------------------|-----------------------|
| Enrique R. Arzac      | 76,379,554       | 8,404,951             |
| Phyllis O. Bonanno    | 76,215,454       | 8,569,051             |
| Kenneth J. Dale       | 76,914,670       | 7,869,835             |
| Frederic A. Escherich | 76,953,791       | 7,830,714             |
| Roger W. Gale         | 76,430,061       | 8,354,444             |
| Kathleen T. McGahran  | 76,862,231       | 7,922,274             |
| Craig R. Smith        | 76,598,588       | 8,185,917             |
| Mark E. Stoeckle      | 76,976,475       | 7,808,030             |

A proposal to approve and ratify the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Fund for 2017 was approved with 82,629,657 votes for, 1,590,937 votes against, and 563,911 shares abstaining.

OTHER INFORMATION

**Distribution Payment Schedule**

The Fund presently pays distributions four times a year, as follows: (a) three interim distributions on or about March 1, June 1, and September 1, and (b) a year-end distribution, payable in late December, consisting of the estimated balance of the net investment income for the year, the net realized capital gains earned through October 31 and, if applicable, a return of capital. Shareholders may elect to receive the year-end distribution in stock or cash. In connection with this distribution, all shareholders of record are sent a distribution announcement notice and an election card in mid-November. **Shareholders holding shares in street or brokerage accounts make their election by notifying their brokerage house representative.**

**Electronic Delivery of Shareholder Reports**

The Fund offers shareholders the benefits and convenience of viewing Quarterly and Annual Reports and other shareholder materials on-line. With your consent, paper copies of these documents will cease with the next mailing and will be provided via e-mail. Reduce paper mailed to your home and help lower the Fund's printing and mailing costs. To enroll, please visit the following websites:

Registered shareholders with AST: [www.astfinancial.com](http://www.astfinancial.com)

Shareholders using brokerage accounts: <http://enroll.icsdelivery.com/ADX>

**Proxy Voting Policies and Record**

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities owned by the Fund and the Fund's proxy voting record for the 12-month period ended June 30, 2017 are available (i) without charge, upon request, by calling the Fund's toll free number at (800) 638-2479; (ii) on the Fund's website: [www.adamsfunds.com](http://www.adamsfunds.com) under the headings Funds and then Reports & Literature; and (iii) on the Securities and Exchange Commission's website: [www.sec.gov](http://www.sec.gov).

**Statement on Quarterly Filing of Complete Portfolio Schedule**

In addition to publishing its complete schedule of portfolio holdings in the First and Third Quarter Reports to Shareholders, the Fund also files its complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the Commission's website: [www.sec.gov](http://www.sec.gov). The Fund's Forms N-Q may be reviewed and copied at the Commission's Public Reference Room, and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Fund also posts a link to its Forms N-Q on its website: [www.adamsfunds.com](http://www.adamsfunds.com); select Fund name and click the headings Funds, and then Reports & Literature.

**Website Information**

Investors can find the Fund's daily NAV per share, the market price, the discount/premium to NAV per share, and quarterly changes in the portfolio securities on our website at [www.adamsfunds.com](http://www.adamsfunds.com). Also available there are a history of the Fund, historical financial information, links for electronic delivery of shareholder reports, and other useful content.



ADAMS DIVERSIFIED EQUITY FUND, INC.

**Board of Directors**

|                                   |  |                               |
|-----------------------------------|--|-------------------------------|
| Enrique R. Arzac <sup>2,4</sup>   | Frederic A. Escherich <sup>1,2,3</sup> | Craig R. Smith <sup>2,3</sup> |
| Phyllis O. Bonanno <sup>3,4</sup> | Roger W. Gale <sup>1,2,4</sup>         | Mark E. Stoeckle <sup>1</sup> |
| Kenneth J. Dale <sup>1,3,4</sup>  | Kathleen T. McGahran <sup>1,5</sup>    |                               |

1. Member of Executive Committee
2. Member of Audit Committee
3. Member of Compensation Committee
4. Member of Nominating and Governance Committee
5. Chair of the Board

**Officers**

|                            |  |
|----------------------------|--|
| Mark E. Stoeckle           | <i>Chief Executive Officer &amp; President</i>                                   |
| James P. Haynie, CFA       | <i>Executive Vice President</i>  |
| D. Cotton Swindell, CFA    | <i>Executive Vice President</i>  |
| Brian S. Hook, CFA, CPA    | <i>Vice President, Chief Financial Officer &amp; Treasurer</i>                   |
| Lawrence L. Hooper, Jr.    | <i>Vice President, General Counsel, Secretary &amp; Chief Compliance Officer</i> |
| Steven R. Crain, CFA       | <i>Vice President Research</i>   |
| Michael E. Rega, CFA       | <i>Vice President Research</i>   |
| David R. Schiminger, CFA   | <i>Vice President Research</i>   |
| Jeffrey R. Schollaert, CFA | <i>Vice President Research</i>   |
| Christine M. Sloan, CPA    | <i>Assistant Treasurer</i>   |

500 East Pratt Street, Suite 1300, Baltimore, MD 21202

410.752.5900 800.638.2479

**Website:** [www.adamsfunds.com](http://www.adamsfunds.com)

**Email:** [contact@adamsfunds.com](mailto:contact@adamsfunds.com)

**Tickers:** ADX (NYSE), XADEX (NASDAQ)

**Counsel:** Norton Rose Fulbright US LLP

**Independent Registered Public Accounting Firm:** PricewaterhouseCoopers LLP

*Custodian of Securities:* The Northern Trust Company

*Transfer Agent & Registrar:* American Stock Transfer & Trust Company, LLC

Stockholder Relations Department

6201 15<sup>th</sup> Avenue

Brooklyn, NY 11219

(877) 260-8188

*Website:* [www.astfinancial.com](http://www.astfinancial.com)

*Email:* [info@astfinancial.com](mailto:info@astfinancial.com)

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**Item 2. Code of Ethics.**

Item not applicable to semi-annual report.

**Item 3. Audit Committee Financial Expert.**

Item not applicable to semi-annual report.

**Item 4. Principal Accountant Fees and Services.**

Item not applicable to semi-annual report.

**Item 5. Audit Committee of Listed Registrants.**

Item not applicable to semi-annual report.

**Item 6. Investments.**

(a) This schedule is included as part of the Report to Stockholders filed under Item 1 of this form.

(b) Not applicable.

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

Item not applicable to semi-annual report.

**Item 8. Portfolio Managers of Closed-End Management Investment Companies.**

Item not applicable to semi-annual report.

**Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.**

|               | Total Number of Shares<br>(or Units Purchased) | Average Price Paid<br>per Share (or Unit) | Total Number of Shares<br>(or Units) Purchased as<br>Part of Publicly<br>Announced Plans or<br>Programs | Maximum Number of<br>Shares (or Units) That<br>May Yet Be Purchased<br>Under the Plans or<br>Programs |
|---------------|--|---|---|---|
| January 2017  | 39,596   | \$12.94                                   | 39,596  | 2,577,200   |
| February 2017 | 107,665  | \$13.47                                   | 107,665   | 2,469,535   |
| March 2017    | 90,600   | \$13.79                                   | 90,600  | 2,378,935   |
| April 2017    | --   | --  | --  | 2,378,935   |
| May 2017      | 358,700  | \$14.11                                   | 358,700   | 2,020,235   |
| June 2017     | --   | --  | --  | 2,020,235 (2c)  |
| Total         | 596,561 (1)                                    | \$13.87                                   | 596,561 (2a)<br>(2b)  |   |

(1) There were no shares purchased other than through a publicly announced plan or program.

(2a) The Plan was announced on December 11, 2014.

(2b) The share amount approved in 2014 was 5% of outstanding shares, or 4,667,000 shares.

(2c) The Plan has no expiration date.

(2d) None.

(2e) None.

**Item 10. Submission of Matters to a Vote of Security Holders.**

There were no material changes to the procedures by which shareholders may recommend nominees to the registrant's Board of Directors made or implemented after the registrant last provided disclosure in response to the requirements of Item 407(c)(2)(iv) of Regulation S-K (as required by Item 22(b)(15) of Schedule 14A), or this Item.

**Item 11. Controls and Procedures.**

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) are effective based on their evaluation of the disclosure controls and procedures as of a date within 90 days of the filing date of this report.

(b) There have been no significant changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) that occurred during the registrant's second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 12. Exhibits.**

- (a) (1) Not applicable. See registrant's response to Item 2 above.
- (2) Separate certifications by the registrant's principal executive officer and principal financial officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and required by Rule 30a-2(a) under the Investment Company Act of 1940, are attached.
- (3) Written solicitation to purchases securities: not applicable.

(b) A certification by the registrant's principal executive officer and principal financial officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and required by Rule 30a-2(b) under the Investment Company Act of 1940, is attached.

**SIGNATURES**



Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Adams Diversified Equity Fund, Inc.

By: /s/ Mark E. Stoeckle  
Mark E. Stoeckle  
Chief Executive Officer & President  
(Principal Executive Officer)

Date: July 21, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By: /s/ Mark E. Stoeckle  
Mark E. Stoeckle  
Chief Executive Officer & President  
(Principal Executive Officer)

Date: July 21, 2017

By: /s/ Brian S. Hook  
Brian S. Hook  
Vice President, Chief Financial Officer & Treasurer  
(Principal Financial Officer)

Date: July 21, 2017