

ADAMS DIVERSIFIED EQUITY FUND, INC.  
Form N-Q  
October 21, 2016

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT  
INVESTMENT COMPANY**

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

---

**ADAMS DIVERSIFIED EQUITY FUND, INC.**

---

(Exact name of registrant as specified in charter)

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

---

(Address of principal executive offices)

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

---

(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:** September 30, 2016

**Item 1. Schedule of Investments.**

Edgar Filing: ADAMS DIVERSIFIED EQUITY FUND, INC. - Form N-Q

September 30, 2016 (unaudited)

	Shares	Value (A)
<b>Common Stocks 97.5%</b>		
<b>Consumer Discretionary 11.8%</b>		
Amazon.com, Inc. (B)	50,000	\$ 41,865,500
Comcast Corp. (Class A)	559,800	37,137,132
Dollar General Corp.	149,637	10,473,093
Hanesbrands Inc.	316,700	7,996,675
Lowe's Companies, Inc.	405,000	29,245,050
Magna International Inc.	252,000	10,823,400
Consumer Discretionary Select Sector SPDR Fund (G)	129,105	10,333,564
Starbucks Corporation	251,300	13,605,382
Walt Disney Co.	184,800	17,160,528
		178,640,324
<b>Consumer Staples 9.4%</b>		
Coca-Cola Co.	465,000	19,678,800
CVS Health Corp.	265,600	23,635,744
Kroger Co.	282,900	8,396,472
PepsiCo, Inc. (F)	230,400	25,060,608
Philip Morris International Inc.	323,300	31,431,226
Procter & Gamble Co.	131,850	11,833,537
Spectrum Brands Holdings, Inc. (G)	88,100	12,130,489
Walmart Stores, Inc.	156,800	11,308,416
		143,475,292
<b>Energy 7.9%</b>		
Adams Natural Resources Fund, Inc. (C)	2,186,774	43,582,406
Chevron Corp.	218,000	22,436,560
Concho Resources Inc. (B)	57,500	7,897,625
EOG Resources, Inc.	151,200	14,622,552
Exxon Mobil Corp. (F)	101,000	8,815,280
Halliburton Co.	354,400	15,905,472
Marathon Petroleum Corp.	166,000	6,737,940
		119,997,835
<b>Financials 13.5%</b>		
Allstate Corp.	162,800	11,262,504
American International Group, Inc.	263,000	15,606,420
Bank of America Corp.	1,140,500	17,848,825
BlackRock, Inc.	58,200	21,095,172
Chubb Ltd.	171,600	21,561,540
Goldman Sachs Group, Inc.	120,300	19,400,781
Intercontinental Exchange, Inc.	83,200	22,410,752
JPMorgan Chase & Co.	241,200	16,061,508
Prudential Financial, Inc.	189,100	15,440,015
Raymond James Financial, Inc.	205,000	11,933,050
Wells Fargo & Co.	719,000	31,837,320
		204,457,887

## SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2016 (unaudited)

	Shares	Value (A)
<b>Health Care 14.4%</b>		
AbbVie, Inc.	380,000	\$ 23,966,600
Aetna Inc.	183,900	21,231,255
Allergan plc (B)	107,096	24,665,280
Biogen Inc. (B)	47,000	14,712,410
Cigna Corp.	145,800	19,000,656
Edwards Lifesciences Corp. (B)	194,800	23,485,088
Gilead Sciences, Inc.	55,500	4,391,160
Health Care Select Sector SPDR Fund (G)	145,800	10,513,638
Johnson & Johnson	64,000	7,560,320
Merck & Co., Inc.	351,500	21,937,115
Pfizer Inc.	702,940	23,808,578
Thermo Fisher Scientific Inc.	145,400	23,127,324
		218,399,424
<b>Industrials 9.3%</b>		
Boeing Co.	205,000	27,006,700
Delta Air Lines, Inc.	311,900	12,276,384
Dover Corp.	176,000	12,960,640
FedEx Corp.	80,000	13,974,400
General Electric Co.	246,500	7,301,330
Honeywell International Inc.	209,400	24,413,946
Industrial Select Sector SPDR Fund (G)	152,900	8,926,302
Robert Half International Inc.	202,500	7,666,650
Union Pacific Corp.	278,000	27,113,340
		141,639,692
<b>Information Technology 21.6%</b>		
Adobe Systems Inc.	176,000	19,103,040
Alphabet Inc. (Class A) (B)	35,500	28,544,130
Alphabet Inc. (Class C) (B)	35,597	27,669,192
Apple Inc. (F)	480,500	54,320,525
Cisco Systems, Inc.	446,000	14,147,120
Citrix Systems, Inc. (B)	107,800	9,186,716
Facebook, Inc. (Class A) (B)	303,300	38,904,291
Hewlett Packard Enterprise Co.	485,600	11,047,400
Lam Research Corp.	127,600	12,084,996
MasterCard, Inc. (Class A)	230,000	23,407,100
Microsoft Corp.	836,800	48,199,680
NXP Semiconductors N.V. (B)	62,200	6,345,022
Oracle Corp.	221,000	8,680,880
Visa Inc. (Class A)	322,000	26,629,400
		328,269,492
<b>Materials 2.1%</b>		
Dow Chemical Co.	154,700	8,018,101
LyondellBasell Industries N.V. (Class A)	186,000	15,002,760
PPG Industries, Inc.	85,000	8,785,600
		31,806,461

Edgar Filing: ADAMS DIVERSIFIED EQUITY FUND, INC. - Form N-Q

**Real Estate 2.6%**

American Tower Corp.	105,000	11,899,650
Boston Properties, Inc.	85,300	11,625,537
Simon Property Group, Inc.	77,000	15,939,770

39,464,957

**Telecommunication Services 2.0%**

SBA Communications Corp. (Class A) (B)	90,000	10,094,400
Verizon Communications Inc.	389,000	20,220,220

30,314,620

## SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2016 (unaudited)

	Shares	Value (A)
<b>Utilities 2.9%</b>		
DTE Energy Company	121,400	\$ 11,371,538
Edison International	149,800	10,823,050
NextEra Energy, Inc.	111,800	13,675,376
Pinnacle West Capital Corp.	107,500	8,168,925
		44,038,889
<b>Total Common Stocks</b> (Cost \$1,090,948,412)		1,480,504,873
<b>Other Investments 0.0%</b>		
<b>Financial 0.0%</b> Adams Funds Advisers, LLC (B) (D) (Cost \$150,000)		93,000
<b>Short-Term Investments 2.2%</b>		
<b>Money Market Funds 2.2%</b> Fidelity Institutional Money Market Money Market Portfolio (Institutional Class), 0.44% (E)	17,787,019	17,787,019
Northern Institutional Treasury Portfolio, 0.26% (E)	15,410,081	15,410,081
<b>Total Short-Term Investments</b> (Cost \$33,197,100)		33,197,100
<b>Securities Lending Collateral 2.6%</b> (Cost \$39,614,944)		
<b>Money Market Funds 2.6%</b> Northern Institutional Funds Liquid Assets Portfolio, 0.45% (E)	39,614,944	39,614,944
<b>Total Investments 102.3% of Net Assets</b> (Cost \$1,163,910,456)		\$ 1,553,409,917

	Type of Contract	Counterparty	Termination Date	Notional Amount	Unrealized Appreciation (Assets)	Unrealized Depreciation (Liabilities)
<b>Total Return Swap Agreements (0.1)%</b>						
Receive positive total return (pay negative total return) on 200,200 shares of Salesforce.com Inc. common stock and pay financing amount based on Notional Amount and daily U.S. Federal Funds rate plus 0.55%.	Long	Morgan Stanley	10/13/2017	\$ 15,020,742	\$	\$ (748,794)
Receive negative total return (pay positive total return) on 322,100 shares of Technology Select Sector SPDR Fund and pay financing amount based on Notional Amount and daily U.S. Federal Funds rate less 0.45%.	Short	Morgan Stanley	10/13/2017	(15,001,196)		(452,174)

Edgar Filing: ADAMS DIVERSIFIED EQUITY FUND, INC. - Form N-Q

Gross Unrealized Loss on Open Total Return Swap Agreements	\$	\$ (1,200,968)
Net Unrealized Loss on Open Total Return Swap Agreements		\$ (1,200,968)

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.
- (B) Presently non-dividend paying.
- (C) Non-controlled affiliate, a closed-end sector fund, registered as an investment company under the Investment Company Act of 1940.
- (D) Controlled affiliate valued using fair value procedures.
- (E) Rate presented is as of period-end and represents the annualized yield earned over the previous seven days.
- (F) A portion of the position is pledged as collateral for open swap agreements. The aggregate market value of pledged securities is \$1,422,775.
- (G) All or a portion of shares held are on loan.

See accompanying notes.

## NOTES TO SCHEDULES OF INVESTMENTS AND OUTSTANDING TOTAL RETURN SWAP AGREEMENTS (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

**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.

Activity related to the Fund's investment in affiliated companies for the period ended September 30, 2016 is as follows:

Affiliated Company	Purchase Cost	Sales Cost	Investments in Securities, at Cost	Dividend Income	Net Realized Gain on Security Transactions	Value September 30, 2016	Value December 31, 2015	Change in Unrealized Appreciation on Investments
Adams Natural Resources Fund, Inc. ("PEO")	\$--	\$--	\$34,735,404	\$546,694	\$109,339	\$43,582,406	\$38,793,371	\$4,789,035
Adams Funds Advisers, LLC ("AFA")	--	--	150,000	--	--	93,000	317,000	(224,000)
<b>Total</b>	<b>\$--</b>	<b>\$--</b>	<b>\$34,885,404</b>	<b>\$546,694</b>	<b>\$109,339</b>	<b>\$43,675,406</b>	<b>\$39,110,371</b>	<b>\$4,565,035</b>

**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.

**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 from 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.

In October 2015, AFA began providing 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 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 September 30, 2016, AFA had assets under management of \$46.7 million invested entirely from 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 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.

**Investment Transactions** - The Fund's investment decisions are made by the portfolio management team with recommendation 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 interests. Investment transactions are accounted for on the trade date. Realized gains and losses on sales of investments are recorded on the basis of specific identification.

**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") to ensure that financial instruments are appropriately priced at fair value in accordance with accounting principles generally accepted in the United States ("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 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 in the circumstances.

Investments in securities traded on national security exchanges are valued at the last reported sale price 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. Given the absence of market quotations or observable inputs, the Fund's investment in AFA is categorized as Level 3 in the hierarchy.

At September 30, 2016, the Fund's financial instruments were classified as follows:

<b>Assets:</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Common stocks	\$1,480,504,873	\$--	\$--	\$1,480,504,873
Other investments	--	--	93,000	93,000
Short-term investments	33,197,100	--	--	33,197,100
Securities lending collateral	39,614,944	--	--	39,614,944
Total investments	\$1,553,316,917	\$--	\$93,000	\$1,553,409,917

**Liabilities:**

Total return swap agreements*	--	\$(1,200,968)	--	\$(1,200,968)
-------------------------------	----	---------------	----	---------------

\*Unrealized appreciation (depreciation)

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

Balance as of December 31, 2015	\$317,000
Purchases	--
Change in unrealized appreciation of investments	(224,000)
Balance as of September 30, 2016	\$93,000

There were no transfers between levels during the period ended September 30, 2016.

## 2. FEDERAL INCOME TAXES

As of September 30, 2016, the identified cost of securities for federal income tax purposes was \$1,163,792,472 and net unrealized appreciation aggregated \$389,617,445, consisting of gross unrealized appreciation of \$408,974,758 and gross unrealized depreciation of \$19,357,313.

## 3. INVESTMENT TRANSACTIONS

Purchases and sales of portfolio investments, other than short-term investments and derivative transactions, during the period ended September 30, 2016 were \$290,897,184 and \$322,282,682, respectively.

## 4. DERIVATIVES

During the period ended September 30, 2016, 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 are indicative of 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 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 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 determined daily with the change in the fair value recorded as an unrealized gain or loss. Upon termination of a swap agreement, the Fund recognizes a realized gain (loss) on total return swap agreements 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. The Fund's policy is to net all derivative instruments subject to a netting agreement.

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 September 30, 2016, securities with a value of \$1,422,775 were pledged by the Fund, and no cash collateral was held by the Fund.

## **5. 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 securities loaned that may occur during the term of the loan will be for the account of the Fund. At September 30, 2016, the Fund had securities on loan of \$39,199,240 and held cash collateral of \$39,614,944. The Fund is indemnified by the Custodian, serving as lending agent, for loss of loaned securities and has the right under the lending agreement to recover the securities from the borrower on demand.

### **Item 2. 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 1940 Act) 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 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

### **Item 3. Exhibits.**

Edgar Filing: ADAMS DIVERSIFIED EQUITY FUND, INC. - Form N-Q

The certifications of the principal executive officer and principal financial officer pursuant to Rule 30a-2(a) under the 1940 Act are attached hereto as Form N-Q Certifications.

**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 and President  
(Principal Executive Officer)

Date: October 21, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

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

Date: October 21, 2016

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

Date: October 21, 2016