

ADAMS DIVERSIFIED EQUITY FUND, INC.

Form N-30B-2

October 21, 2016

**ADAMS  
DIVERSIFIED EQUITY  
FUND**

**THIRD QUARTER REPORT**

**SEPTEMBER 30, 2016**

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

The week after returning from the Independence Day holiday, investors saw the S&P 500 advance 3.6%. Following this strong initial move, which contributed most of the quarter's return, markets settled into a relatively calm trading range. Strong consumer confidence numbers, coupled with corporate earnings that largely surprised to the upside, helped boost investor confidence. As a result, the S&P 500 gained 3.9% over the quarter, bringing its year-to-date return to 7.8%.

As the quarter drew to a close, volatility picked up. Oil prices rallied when OPEC announced an agreement to reduce production targets as a means to lift prices, and markets reacted well. The growing uncertainty around how long central banks in Europe, the U.S., and Japan can maintain accommodative monetary policies also contributed to the late-quarter volatility. The Federal Reserve once again voted against raising interest rates, though seemed to edge closer to resuming rate hikes pending evidence of continued progress toward inflation and employment goals.

Amid the persistent low-interest rate environment and investors' ongoing desire for yield, the dividend-focused stocks in the Utility and Telecommunication sectors have advanced 16.1% and 17.9%, respectively, year to date. However, those sectors faltered in September with the Fed's commentary and financial companies that had been battered for much of the year started to recover. For the quarter, the Technology sector's return far exceeded all other sectors, advancing 12.9% and offsetting a flat first six months' return.

Our portfolio benefitted from holdings in the four largest technology stocks: Apple, Microsoft, Facebook, and Alphabet. Each beat expectations and was rewarded with double-digit stock price advances. We added a new position in the Technology sector, Hewlett Packard Enterprise, a provider of hardware solutions to enterprise customers, including servers, storage, and networking equipment. Since splitting from its parent company in late 2015, Hewlett has experienced improving fundamentals. In addition, the management team continues to focus on ways to trim the product portfolio and drive shareholder value. The company is currently in the process of spinning off its services and software divisions. These moves will generate substantial cash flow and provide the potential to return a significant amount of cash back to shareholders.

In the Financial sector, we established a position in Florida-based Raymond James Financial, a well-run regional brokerage firm focused on the private client market. The company enjoys an industry-leading position as one of the largest independent retail brokerage houses and benefits from operating outside of the traditional Wall Street "wirehouse" model. The independent brokerages are growing market share by providing financial advisors with more product flexibility and superior economics. Additionally, Raymond James is a likely beneficiary of recent changes to the Department of Labor's fiduciary standards. We eliminated our position in Capital One Financial as its exposure to subprime loans did not position the company well at this stage in the credit cycle.

Mergers often provide compelling opportunities for investors. We believe the proposed merger between Dow Chemical and DuPont is one such example and we initiated a position in Dow. As an independent company, Dow has spent the last few years streamlining its operations and is set to capitalize on an improving market for ethylene producers. Additionally, there is significant growth potential in Dow's product pipeline. A combination with DuPont offers even greater opportunity and significant synergies. Post the merger, management intends to unlock more value through plans to spin the assets out into three leaner publicly-traded companies with focused strategies for growth.

LETTER TO SHAREHOLDERS (CONTINUED)

The upcoming Presidential election is likely to be the most impactful event of the fourth quarter and will influence markets for years to come. In the balance is the unknown direction of several issues including health care, the composition of the Supreme Court, and monetary as well as fiscal policy. Strongly drawn partisan lines create a broad range of outcomes for these weighty issues. In the face of this, we will continue to execute our process: searching for good companies, doing good things, at good prices. Even in an uncertain environment, we believe our process will reward the patient investor.

For the nine months ended September 30, 2016, the total return on the Fund's net asset value ( NAV ) per share (with dividends and capital gains reinvested) was 5.3%. This compares to a 7.8% total return for the S&P 500 and a 6.0% 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 3.7%.

For the twelve months ended September 30, 2016, the Fund's total return on NAV was 12.7%. Comparable figures for the S&P 500 and Lipper Large-Cap Core Mutual Funds Average were 15.4% and 12.5%, respectively. The Fund's total return on market price was 10.9%.

During the first nine months of this year, the Fund paid distributions to shareholders in the amount of \$14.6 million, or \$.15 per share, consisting of \$.01 net investment income and \$.02 long-term capital gain, realized in 2015, and \$.12 of net investment income realized in 2016, all taxable in 2016. These constitute the first three payments toward our annual 6% minimum distribution rate commitment. Additionally, the Fund repurchased 875,663 shares of its Common Stock during the past nine months. The shares were repurchased at an average price of \$12.74 and a weighted average discount to NAV of 15.7%, resulting in a \$0.02 increase to NAV per share.

By order of the Board of Directors,

Mark E. Stoeckle

*Chief Executive Officer & President*

October 13, 2016

*Disclaimers*

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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.

## SUMMARY FINANCIAL INFORMATION

(unaudited)

|   | 2016            | 2015            |
|---|-----------------|-----------------|
| <i>At September 30:</i>                         |                 |                 |
| Net asset value per share                       | \$15.65         | \$14.93         |
| Market price per share                          | \$13.15         | \$12.75         |
| Shares outstanding                              | 97,016,857      | 95,419,646      |
| Total net assets                                | \$1,517,835,665 | \$1,424,167,228 |
| Unrealized appreciation on investments          | \$388,298,493   | \$318,499,245   |
| <i>For the nine months ended September 30:</i>  |                 |                 |
| Net investment income                           | \$13,893,193    | \$8,065,497     |
| Net realized gain                               | \$63,633,330    | \$63,588,775    |
| Cost of shares repurchased                      | \$11,151,645    | \$12,377,017    |
| Shares repurchased                              | 875,663         | 883,800         |
| Total return (based on market price)            | 3.7%            | -5.8%           |
| Total return (based on net asset value)         | 5.3%            | -4.9%           |
| <i>Key ratios:</i>                              |                 |                 |
| Expenses to average net assets*                 | 0.61%           | 0.93%**         |
| Net investment income to average net assets*    | 1.26%           | 0.80%**         |
| Portfolio turnover*                             | 26.9%           | 17.3%           |
| Net cash & short-term investments to net assets | 2.5%            | 2.7%            |

\* Annualized

\*\* The annualized ratios of expenses and net investment income to average net assets were 0.64% and 1.09%, respectively, after excluding a one-time charge of \$4,471,424 related to the termination of the Fund's defined benefit plans.

## TEN LARGEST EQUITY PORTFOLIO HOLDINGS

September 30, 2016 (unaudited)

|                                     | Market Value  | Percent<br>of Net Assets |
|-------------------------------------|---------------|--------------------------|
| Alphabet Inc. (Class A & Class C)   | \$ 56,213,322 | 3.7%                     |
| Apple Inc.                          | 54,320,525    | 3.6                      |
| Microsoft Corp.                     | 48,199,680    | 3.2                      |
| Adams Natural Resources Fund, Inc.* | 43,582,406    | 2.9                      |
| Amazon.com, Inc.                    | 41,865,500    | 2.8                      |
| Facebook, Inc. (Class A)            | 38,904,291    | 2.6                      |
| Comcast Corp. (Class A)             | 37,137,132    | 2.4                      |
| Wells Fargo & Co.                   | 31,837,320    | 2.1                      |
| Philip Morris International Inc.    | 31,431,226    | 2.1                      |
| Lowe's Companies, Inc.              | 29,245,050    | 1.9                      |

|       |                |       |
|-------|----------------|-------|
| Total | \$ 412,736,452 | 27.3% |
|-------|----------------|-------|

\* Non-controlled affiliated closed-end fund

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## SCHEDULE OF INVESTMENTS

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    |

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**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 |

|   |                         |                     |                         |                        | Unrealized<br>Appreciation<br>(Assets) | Unrealized<br>Depreciation<br>(Liabilities) |
|---|-------------------------|---------------------|-------------------------|------------------------|--|---|
| <b>Total Return Swap Agreements (0.1)%</b>  | <b>Type of Contract</b> | <b>Counterparty</b> | <b>Termination Date</b> | <b>Notional Amount</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)                                   |
| <b>Gross Unrealized Loss on Open Total Return Swap Agreements</b>   |                         |                     |                         |                        | \$                                     | \$ (1,200,968)                              |

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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.

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>1,2,4</sup> |
| Phyllis O. Bonanno <sup>3,4</sup> | Roger W. Gale <sup>2,3</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>   |
| Nancy J.F. Prue, CFA     | <i>Executive Vice President, Director of Shareholder Communications</i> |
| Brian S. Hook, CFA, CPA  | <i>Vice President, Chief Financial Officer &amp; Treasurer</i>          |
| Lawrence L. Hooper, Jr.  | <i>Vice President, General Counsel &amp; Secretary</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>  |
| Christine M. Sloan, CPA  | <i>Assistant Treasurer</i>  |

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*Custodian of Securities:* The Northern Trust Company

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

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