EQUITY INVESTMENT CORPORATION

2017 First Quarter Commentary
Mid-Cap Value
April 2017

The stock market rose in the first quarter, continuing its post-election strength. While the fourth quarter of 2016 was led by value and smaller stocks, first quarter 2017's leaders were growth and large caps. Taken together, the market advance post-election has been broad and steep. However, during the first quarter of 2017, the market was more discriminating. The S&P 500®, led by very strong performance in a handful of mega cap technology stocks, gained 6.1%. The Russell Midcap® Growth Index gained 6.9% in Q1, while the Russell Midcap® Value Index was up 3.8%. Our Mid-Cap Value SMA (MCV) composite rose 1.3% for the quarter (gross of fees[1]), with our 39% average cash balance accounting for the deficit. Net of 3% hypothetical maximum annual SMA fees, the first quarter returns for MCV would be 0.5%.

The market's advance has been powered by optimism about the future rather than fundamental progress in the present. This was true even before the November election – over the past five years the S&P 500 has nearly doubled while corporate earnings have made very little real progress, even with a significant boost from financial engineering. Since the election, optimism has gone into overdrive with hopes for regulatory relief, tax reform, and ultimately higher earnings growth. Whether or not such post-election optimism is warranted, prices today seem to already reflect much of this potential for improvement.

Investment Opportunities

With that as backdrop, we view today's market as expensive – one in which it is difficult for us to find attractively priced investment opportunities. Elevated prices may result in painful pullbacks, but perhaps a greater, more certain risk of high prices is the imbedding of possible subpar future returns for equities. Therefore, in times of high valuations, it is especially important for us to diligently apply the non-valuation steps in our investment process – seek to avoid companies with value-trap characteristics, critically scrutinize reported earnings and financial condition so as not to capitalize unrepeatable earnings, and diversify our exposures among companies, industries and sectors so that unexpected developments have limited effect.

Of particular concern when evaluating earnings today are the dual impacts of financial engineering and pro-forma accounting. As we've highlighted previously, financial engineering in this market has been widespread – in particular, companies are taking advantage of low interest rates to increase leverage for "accretive" opportunities, primarily share buy-backs and acquisitions. Normally, earnings accretion suggests an attractive purchase price, but in today's environment, it suggests a low financing cost, which may or may not persist. We are avoiding the worst offenders – companies who are taking on more leverage than prudent in order to show near-term earnings progress. Similarly, we continue to be skeptical of many of the pro-forma accounting adjustments managements use to present results without considering the impact of all their costs. Some adjustments are reasonable, but we believe many of these costs should be factored in rather than excluded, and we often incorporate lower earnings estimates than management (and accommodating analysts) in our own valuation work.

Overall, we view this as a difficult time to invest in the stock market. Precisely because it is difficult, however, we believe our work and continued diligence is likely to prove worthwhile for investors. Especially in a time like this, we will continue to exercise caution, prioritizing risk management over trying to outpace a strongly advancing market.

Portfolio Review

We sold one position in the first quarter. Comerica, Inc. had risen sharply post-election, and we trimmed it late last year, then sold the entire remaining position in February as it rose further on expectations of higher interest rates, lower taxes, and reduced regulation.

This contrasts with a fairly active final quarter of 2016 where we added two new positions, trimmed back two overweight positions, reduced two others in the financial sector and invested some of these proceeds in an existing holding in the same sector.

Personnel

After almost 30 years of service to EIC, Joyce Michels will retire at the end of this month. Joyce was our second employee, and her contributions have been immense. Over the years, she's helped with compliance and trading but devoted most of her time to operations, performing much of the back-office work that goes largely unnoticed to the outside world but is critical to our success. We hope you will join us in thanking Joyce for her loyal service and wishing her well in retirement.

Joyce's shoes will be hard to fill, but she's been working with an exceptional team for several years. Under her direction, Phillip Lorren and Josh Golub, who joined EIC in 2014 and 2015, respectively, have taken on increased responsibilities, and we have complete confidence in the two of them. Thus, we will be promoting Phillip to Operations Manager and Josh to Operations Analyst upon Joyce's retirement.

We thank you for your continued partnership with EIC and are here to support you in any way we can.

W. Andrew Bruner, CFA, CPA
R. Terrence Irrgang, CFA
Ian Zabor, CFA

Please see disclosures on the next page.

[1]Disclosures

Returns are presented in conjunction with our full disclosure presentation, which is considered an integral part of this report. All returns include reinvestment of dividends and interest. Indices are unmanaged, do not incur management fees, costs or expenses, and cannot be invested in directly. Results are historical and do not imply future rates of returns or volatility for EIC or for the indices, which may be materially different from the past and from one another. ***Individual account results may differ from those of a composite. Client net returns are reduced by EIC's management fees and possibly brokerage firm wrap fees, which include trading costs, portfolio management, custody, and other administrative fees.***

EIC's MCV results are those of our Mid-Cap Value SMA Composite gross (before all fees) and net of (after) assumed maximum annual SMA fees of 3% (0.25% per month). SMA fees include trading costs, portfolio management, custody, and other administrative fees. The securities identified and described above do not represent all of the securities purchased, sold or recommended for client accounts.

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Equity Investment Corporation makes every reasonable effort to comply with industry best practices and the Global Investment Performance Standards (GIPS®). As part of our compliance with the GIPS® standards we prepare and present our composite performance and make this presentation available to all current and prospective clients. Attached you will find our disclosure presentations (through 2016) prepared and presented in accordance with the GIPS® standards. Please take the time to review these disclosures and let us know if you have any questions.

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EQUITY INVESTMENT CORPORATION

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Equity Investment Corporation (EIC) is an SEC registered independent investment advisor incorporated in the state of Georgia. Effective September 30, 2016, assets of the firm transferred from Jim Barksdale, who founded the firm in 1986, to three members of the investment team who collectively have more than 40 years of experience at EIC. Accounts continue to be managed using the same investment process. Performance numbers are the value-weighted, time-weighted, total return composite results of fully discretionary Mid-Cap Value wrap (SMA) accounts. The strategy invests in high quality, well managed mid-cap companies, while at the same time avoiding those that look inexpensive relative to their historical record but are actually in structural decline. Prior to January 1, 2013, the composite was called the Mid-Cap Value Wrap Composite. Returns are generally presented net of foreign withholding taxes on dividends, interest income, and capital gains; however, returns for some accounts are presented gross of foreign taxes depending on the treatment by their custodian. All accounts included in the composite are managed according to similar investment guidelines. The composite creation date is January 1, 2004, and SMA accounts comprise 100% of the composite. SMA accounts pay an all-inclusive fee based on a percentage of assets under management. Other than brokerage commissions, this fee includes portfolio monitoring, consulting services, and in some cases, custodial fees. Performance includes reinvestment of dividends, and EIC's returns also include interest earned on cash. The benchmark index is the Russell Midcap® Value Index (which excludes an advisory fee), and was chosen because it is representative of the composite's investment style. The Russell Midcap® Value Index measures the performance of mid-cap companies with lower price-to-book ratios and lower forecasted growth rates. It is a subset of the Russell Midcap® Index which consists of approximately 800 stocks and represents the mid-cap segment of the US equity universe.

									Advisory-Only (UMA) and Managed Assets		
Year Ended Dec - 31	Gross Rate of Return[2]	Hypothetical[2] (3% annual) Net Rate of Return	Benchmark Return of Russell Midcap® Value Index[3]	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion[1] of Annual Returns (St Dev)	Number of Portfolios	Composite Assets ($ Millions)	UMA Assets* ($ Millions)	GIPS® Firm Assets ($ Millions)	Total* ($ Millions)
2017 (through 3/31)	1.3%	0.5%	3.8%	7.6%	11.0%	0.2%	15	$4.4	$2,041.8	$2,901.8	$4,943.6
2016	16.6%	13.2%	20.0%	8.4%	11.3%	1.0%	15	$4.3	$2,044.5	$2,994.4	$5,038.9
2015	-2.1%	-5.0%	-4.8%	8.9%	10.7%	1.0%	9	$2.3	$1,590.0	$3,658.9	$5,248.9
2014	15.2%	11.8%	14.8%	8.9%	9.8%	N/A	5	$1.8	$1,657.7	$3,862.6	$5,520.3
2013	33.6%	29.7%	33.5%	10.5%	13.7%	N/A	3	$1.1	$1,009.2	$3,286.3	$4,295.5
2012	11.3%	8.0%	18.5%	10.7%	16.8%	N/A	3	$0.9	$665.6	$2,301.1	$2,966.7
2011	5.3%	2.2%	-1.4%	15.3%	22.8%	N/A	1	$0.2	$314.5	$1,127.9	$1,442.4
2010	22.8%	19.3%	24.8%	17.9%	27.1%	0.4%	7	$1.7	$77.9	$836.9	$914.8
2009	28.1%	24.4%	34.2%	17.6%	25.0%	0.9%	8	$1.5	$10.5	$541.2	$551.7
2008	-20.4%	-22.8%	-38.4%	13.0%	18.7%	1.2%	11	$1.7	$0.0	$362.6	$362.6
2007	4.4%	1.3%	-1.4%	8.3%	9.1%	0.7%	16	$3.2	$0.0	$448.1	$448.1
2006	12.2%	8.9%	20.2%	7.3%	8.7%	0.5%	20	$6.6	$0.0	$487.2	$487.2
2005	6.0%	2.9%	12.7%	N/A	N/A	0.8%	29	$8.6	$0.0	$463.6	$463.6
2004	19.8%	16.3%	23.7%	N/A	N/A	N/A	32	$10.5	$0.0	$388.1	$388.1

*"Total Assets" include our regulatory assets under management ("GIPS® Firm Assets") and our advisory-only "UMA Assets". EIC has no trading discretion for UMA accounts and provides a model portfolio to the program sponsor or overlay manager. The "UMA Assets" and "Total Assets " amounts are shown as supplemental information.

[1] Dispersion is an asset-weighted standard deviation for the accounts in the composite for the entire year (or year to date).

[2] Results include SMA accounts and gross returns are shown as supplemental information. Gross returns for SMA accounts are stated gross of all fees and transactions costs; net returns are simulated by reducing gross returns of the composite by an annual SMA fee of 3% (0.25%/month).

N/A – Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Additional Notes: The three year annualized standard deviation measures variability of the composite and the benchmark returns over the preceding 36 month period.

Performance has been measured on a monthly basis from January 1, 2004, to present. Periods are geometrically linked to obtain the quarterly and annual results. Eligible new accounts are added to the composite at the beginning of the first full quarter under EIC management. Trade date accounting with monthly valuations and adjustments for large cash flows are used. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The US Dollar is the currency used to express performance. Returns include the reinvestment of all income. There are no non-fee paying accounts. Economic and market conditions have differed over the time period displayed, and likewise will be different in the future. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

Equity Investment Corporation (EIC) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. EIC has been independently verified for the periods January 1, 1986, through March 31, 2017. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. Verification does not ensure the accuracy of any specific composite presentation. The verification reports, as well as a complete list and description of all the firm's composites, are available upon request by contacting Equity Investment Corporation, 3007 Piedmont Road NE, Suite 200, Atlanta, GA 30305. Prospective clients should be aware that results are historical and do not imply future rates of return or volatility for EIC or the indices, which may be materially different from the past and from each other.

Investment management fees are based on market values of the assets under management. EIC's maximum annual fees for SMA accounts (charged quarterly) are 0.75%. Total fees charged may equal 3% per year. SMA schedules are provided by independent SMA sponsors and are available upon request from the individual sponsor. Further information about fees and compensation is discussed in EIC's form ADV Part 2 (www.adviserinfo.sec.gov).

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