

# EQUITY INVESTMENT CORPORATION

## 2015 Second Quarter All-Cap & Large-Cap Value Commentary

July 2015

The market segmentation we experienced in 2012-2013, when ‘value’ and ‘defensive’ companies dramatically underperformed ‘growth’ and ‘dynamic’ companies, has returned this year. Thus, a reminder of our approach to investing from our 2013 Third Quarter Commentary is useful, namely:

*“Despite the old adage of ‘Don’t fight the Fed!’ the backdrop we are investing against is one in which international monetary authorities underwrite and promote risk-taking. We do not want to participate in this process ourselves, even if it means we do not keep up with market performance. This is the price of proper risk management, which has historically reduced our downside participation.”*

The current market environment favoring risk is illustrated in the index returns below, where the more stable ‘defensive’ companies (left-side of table) have generally underperformed the more volatile companies (right-side of table), particularly year-to-date. Given the large size and defensive nature of our holdings, this segmentation largely explains our results this year, with All-Cap Value SMA (ACV) and Large-Cap Value SMA (LCV) composites recording gross returns of -1.7% and -1.6%, respectively, for the quarter, and -2.3% year-to-date (or net of hypothetical 3% annual fees, -2.5% and -2.4% for the quarter, respectively, and -3.8% year-to-date)<sup>1</sup>.

### % Return by Russell Fundamental Volatility & Size

Company Fundamental Volatility \*

Index by Capitalization Size	Company Fundamental Volatility *			
	Least Volatile			Most Volatile
Quarter	Value Defensive	Value	Growth	Growth Dynamic
Russell Top 200®	-0.8%	1.0%	0.7%	2.5%
Russell Midcap®	-1.6%	-2.0%	-1.1%	-0.8%
Russell 2000® (Small-Cap)	-0.6%	-1.2%	2.0%	2.9%
Year-To-Date	Value Defensive	Value	Growth	Growth Dynamic
Russell Top 200®	-2.8%	-1.1%	3.9%	7.8%
Russell Midcap®	-0.2%	0.4%	4.2%	4.6%
Russell 2000® (Small-Cap)	1.4%	0.8%	8.7%	11.1%

\* The more stable half of each index is called Defensive while the less stable half is called Dynamic. Stability is measured at the company level in terms of volatility (price and earnings), leverage and return on assets, and thus reflects sensitivity to economic & credit cycles and market volatility.

Today’s favoring of risk is also seen in corporate behavior, where companies that borrow at today’s low rates to make acquisitions are rewarded with stock price increases. This behavior resulted in a sale from our portfolio during last quarter, CVS Health, whose stock price rose despite announcements of two acquisitions during the quarter (Omnicare and Target’s pharmacies) that will significantly increase CVS’s debt. It affected another of our holdings after quarter-end when Chubb Corporation announced it would be acquired by Ace Limited (using debt and newly issued stock) and was sold. If we are going to provide the return pattern achieved in the past (strong in down markets, better than expected during recoveries, and lagging lower quality, volatility-driven, or momentum markets), we believe we must lean against the wind filling the market’s sails today.

**VALUE DISCIPLINE • QUALITY FOUNDATION • GROWTH OBJECTIVE**

EIC ACV (soft close), LCV and MCV are available as managed account strategies on select platforms.

EIC DOC # 15071703

**Portfolio Review**

In addition to the aforementioned sales of CVS Health and Chubb Corporation, we also sold our position in Dr. Pepper Snapple, which was a very successful investment for us since first acquired as part of the break-up of Cadbury Schweppes. Dr. Pepper Snapple's price benefited this year because its earnings are less affected by currency headwinds than competitors'. We also trimmed our position in Molson Coors, whose stock price has risen while recent earnings growth has been limited.

We added to our existing positions in Baxter International early in the quarter due to the anticipated spin-off of Baxalta, its bioscience division. Baxalta's primary emphasis is on blood plasma-based therapies to treat blood disorders and immune deficiencies, while legacy Baxter retains the hospital products business. We now hold both Baxter and Baxalta.

We trimmed our positions in Chevron and ConocoPhillips, which held up relatively well as energy prices declined. In taxable accounts additional purchases and sales occurred to harvest short-term losses from energy positions added last fall as prices fell. While underweight energy prior to the fall, these additions reduced year-to-date returns by approximately 1.0%. We cannot predict the future of oil prices, but our exposures are weighted toward natural gas where the BTU equivalent price versus oil is favorable.

As a result of the above activity, our sales exceeded purchases and our cash position rose slightly for the quarter, ending at approximately 13.5% in established accounts versus 9.7% in March.

**Personnel Additions**

We continued to build out our staff capabilities. After a long search, Tina Dotson joined us as Business Manager to allow Barbara Trivedi, our Chief Compliance Officer, to devote 100% of her time to keeping us up-to-date in the compliance arena. Tina joins us with over 20 years experience in accounting, finance, and business management and has already proven to be an excellent addition. Also, due to the growth in John Stewart's Southeast territory, Sam Borland joined as our seventh Regional Director. He is based in Boynton Beach, Florida, and has over 14 years in the investment industry. He will focus on serving advisors in Florida and Puerto Rico.

## **Investment Team**

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### **<sup>1</sup>Disclosure**

*Returns are presented in conjunction with our full disclosure presentation, which is included and 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 the composite.*

*Gross returns are stated before all fees. Net returns are after assumed maximum annual SMA fees of 3% (0.25% per month). SMA fees include trading costs, portfolio management, custody, and other administrative expenses. Our non-wrap performance is available upon request.*

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**VALUE DISCIPLINE • QUALITY FOUNDATION • GROWTH OBJECTIVE**

*EIC ACV (soft close), LCV, and MCV are available as managed account strategies on select platforms.*

# All-Cap Value SMA Composite Performance Description

Equity Investment Corporation (EIC) is an SEC registered independent investment advisor incorporated in the state of Georgia since 1986. Performance numbers (beginning July 1, 1995) are the value-weighted, time-weighted, total return composite results of fully discretionary All-Cap Value equity wrap fee (SMA) accounts. The strategy employs a flexible framework (not constrained by any cap size limitations) of investing in high quality, well managed 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 All-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. Prior to July 1, 1995, the returns are that of the All-Cap Value composite. Results for the period January 1, 1989 through July 1, 1995 include both SMA and non-SMA accounts. During this period, SMA accounts represent on average 24% of the composite. Since July 1, 1995, SMA accounts comprise 100% of the composite. The composite creation date is July 1, 1995. All accounts included in the composite are managed according to similar investment guidelines. On January 1, 2003 the benchmark (which excludes an advisory fee) was changed retroactively from the S&P® 500 Index to the Russell 3000® Value Index because it is more representative of the composite. Performance includes reinvestment of dividends, and EIC's returns also include interest earned on cash. The benchmark index is the Russell 3000® Value Index, which excludes an advisory fee, and was chosen because it is representative of the composite's investment style. The Russell 3000® Value Index measures the performance of the broad value segment of the US equity universe. It is the portion of the Russell 3000® Index companies with lower price-to-book ratios and lower forecasted growth rates. The Russell 3000® Index consists of the largest 3000 US companies and represents 98% of the investable US equity market.

Year Ended Dec - 31	Supplemental Gross Rate of Return <sup>3</sup>	Hypothetical <sup>3</sup> (3% annual) Return of Net Rate of Return	Benchmark Return of Russell 3000® Value Index <sup>4</sup>	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion <sup>1</sup> of Annual Returns (Standard Deviation)	Number of Portfolios	Number of Accounts <sup>2</sup>	Composite Assets (\$ mm)	Total Firm Assets (\$ Millions)	UMA Assets* (\$ Millions)	Total* (\$ Millions)
2015 (through 6/30)	-2.3%	-3.8%	-0.5%	7.9%	8.9%	0.3%	5095	472	\$2,189.3	\$3,900.9	\$1,671.4	\$5,572.2
2014	14.9%	11.5%	12.7%	8.1%	9.4%	0.5%	5272	479	\$2,259.6	\$3,862.6	\$1,657.7	\$5,520.3
2013	24.7%	21.1%	32.7%	9.2%	12.9%	0.6%	4290	494	\$1,703.6	\$3,286.3	\$1,009.2	\$4,295.5
2012	10.0%	6.7%	17.6%	11.5%	15.8%	0.4%	2742	446	\$1,016.1	\$2,301.1	\$665.6	\$2,966.7
2011	7.4%	4.2%	-0.1%	16.3%	21.0%	0.6%	1398	362	\$556.0	\$1,127.9	\$314.5	\$1,442.4
2010	18.2%	14.7%	16.2%	18.7%	23.5%	0.5%	937	283	\$432.6	\$836.9	\$77.9	\$914.8
2009	26.9%	23.2%	19.8%	17.3%	21.3%	1.3%	743	152	\$282.7	\$541.2	\$10.5	\$551.7
2008	-22.9%	-25.2%	-36.3%	11.7%	15.5%	1.0%	946	235	\$220.2	\$362.6	\$0.0	\$362.6
2007	3.3%	0.3%	-1.0%	7.0%	8.3%	0.8%	935	230	\$283.5	\$448.1	\$0.0	\$448.1
2006	16.6%	13.1%	22.3%	6.2%	7.0%	0.8%	758	229	\$252.7	\$487.2	\$0.0	\$487.2
2005	2.8%	-0.3%	6.9%	8.8%	9.7%	0.7%	675	226	\$195.5	\$463.6	\$0.0	\$463.6
2004	13.9%	10.6%	16.9%	11.4%	14.8%	0.8%	531	176	\$137.4	\$388.1	\$0.0	\$388.1
2003	25.2%	21.6%	31.1%	13.6%	16.0%	0.8%	289	100	\$70.0	\$231.0	\$0.0	\$231.0
2002	-4.1%	-6.9%	-15.2%	15.9%	16.6%	1.5%	59	56	\$14.6	\$110.7	\$0.0	\$110.7
2001	16.9%	13.5%	-4.3%	15.7%	14.1%	0.8%	13	13	\$5.4	\$82.2	\$0.0	\$82.2
2000	18.6%	15.2%	8.0%	18.0%	16.8%	0.8%	16	16	\$6.5	\$62.3	\$0.0	\$62.3
1999	2.1%	-0.9%	6.6%	15.7%	15.9%	1.0%	27	27	\$13.0	\$64.1	\$0.0	\$64.1
1998	16.2%	12.8%	13.5%	14.5%	14.9%	0.9%	11	11	\$2.8	\$35.2	\$0.0	\$35.2
1997	30.1%	26.4%	34.8%	8.8%	9.5%	0.8%	12	12	\$4.9	\$38.8	\$0.0	\$38.8
1996	8.0%	4.8%	21.6%	7.7%	9.2%	0.6%	19	19	\$16.6	\$69.7	\$0.0	\$69.7
1995	19.7%	16.2%	37.0%	6.2%	8.3%	0.6%	42	42	\$23.0	\$93.4	\$0.0	\$93.4
1994	0.2%	-2.8%	-1.9%	5.7%	8.2%	0.8%	65	65	\$32.7	\$92.6	\$0.0	\$92.6
1993	11.3%	8.0%	18.7%	8.0%	9.5%	0.7%	72	72	\$44.0	\$84.5	\$0.0	\$84.5
1992	10.6%	7.4%	14.9%	12.5%	13.7%	0.9%	69	69	\$53.3	\$84.1	\$0.0	\$84.1
1991	37.0%	33.0%	25.4%	13.3%	14.5%	1.3%	58	58	\$35.6	\$48.9	\$0.0	\$48.9
1990	-8.0%	-10.7%	-8.8%	13.2%	13.5%	0.7%	59	59	\$25.8	\$30.4	\$0.0	\$30.4
1989	-20.8%	-17.3%	24.2%	18.0%	17.6%	1.6%	51	51	\$21.4	\$27.8	\$0.0	\$27.8
1988	27.4%	23.7%	23.6%	19.9%	18.9%	1.7%	14	14	\$6.0	\$8.0	\$0.0	\$8.0
1987	10.6%	7.4%	-0.1%	N/A	N/A	N/A	5	5	\$0.5	\$0.6	\$0.0	\$0.6
1986	25.0%	21.3%	18.8%	N/A	N/A	N/A	2	2	\$0.2	\$0.2	\$0.0	\$0.2

See next page for Table Notes and other disclosures

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# All-Cap Value SMA Composite Performance Description (*cont'd*)

## Table Notes:

\*For GIPS® purposes, UMA assets are not part of Firm Assets and are not considered “under management” since EIC has no trading discretion. The “UMA Assets” and “Total” asset amounts are shown as supplemental information.

<sup>1</sup> Dispersion is an asset-weighted standard deviation for the accounts in the composite for the entire year (or year-to-date). For 1986 through 1995 dispersion represents EIC’s All-Cap Value composite, which contains both SMA and non-SMA accounts. For 1996 through 2005, dispersion represents EIC’s internally administered SMA accounts.

<sup>2</sup> Number of accounts - Each internally administered SMA account is treated as a separate account but each separately managed SMA program is considered only one account.

<sup>3</sup> Results include SMA accounts and are shown as supplemental information. Prior to 7/1/1995, the gross returns are that of EIC’s All-Cap Value composite. For the period 1/1/1989 through 7/1/1995, SMA accounts represent on average 24% of the composite assets. Please note that gross returns for SMA accounts are stated gross of all fees and trading costs. For the period 10/1/02 through 12/31/06, the gross returns are those of EIC’s All-Cap Value composite, and are reduced by trading costs, but not by any additional fees. For all other periods the gross returns are stated gross of all fees and brokerage firm SMA fees. Net returns are simulated by reducing gross returns by an annual SMA fee of 3.0% (0.25% per 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, 1986 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 were non fee-paying accounts during the following years: 1986: 100%, 1987: 36%, 1988: 2%, 1999-2000: 1%, 2010-2015: <1%. 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, 2015. 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](http://www.adviserinfo.sec.gov)).

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# Large-Cap Value SMA Composite Performance Description

Equity Investment Corporation (EIC) is an SEC registered independent investment advisor incorporated in the state of Georgia since 1986. Performance numbers are the value-weighted, time-weighted, total return composite results of fully discretionary large-cap value wrap fee (SMA) accounts managed in the style of the firm's traditional value methodology with a large-cap bias. The strategy employs a flexible framework of investing in high quality, well managed 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 Large-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. The composite creation date is January 1, 2001, 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. For comparison purposes the composite is measured against the Russell 1000® Value Index, which excludes an advisory fee. On January 1, 2003 the benchmark was changed retroactively from the S&P 500® Index to the Russell 1000® Value Index which is more representative of the composite. The Russell 1000® Value Index measures the performance of the large cap value segment of the US equity universe. It is the portion of the Russell 1000® Index companies with lower price-to-book ratios and lower expected growth values. The Russell 1000® Index includes approximately 1000 of the largest US companies and represents 90% of the US equity market.

Year Ended Dec - 31	Gross Rate of Return <sup>2</sup>	Hypothetical <sup>2</sup> (3% annual) Net Rate of Return	Benchmark Return of Russell 1000® Value Index <sup>4</sup>	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion <sup>1</sup> of Annual Returns (Standard Deviation)	Number of Portfolios <sup>3</sup>	Composite Assets (\$ mm)	Total Firm Assets (\$ Millions)	UMA Assets* (\$ Millions)	Total* (\$ Millions)
2015 (through 6/30)	-2.3%	-3.8%	-0.6%	8.0%	8.8%	0.3%	917	\$285.9	\$3,900.9	\$1,671.4	\$5,572.2
2014	15.0%	11.6%	13.5%	8.1%	9.2%	0.5%	361	\$159.4	\$3,862.6	\$1,657.7	\$5,520.3
2013	24.8%	21.2%	32.5%	9.4%	12.7%	0.5%	863	\$328.7	\$3,286.3	\$1,009.2	\$4,295.5
2012	10.0%	6.8%	17.5%	11.5%	15.5%	0.3%	658	\$197.2	\$2,301.1	\$665.6	\$2,966.7
2011	8.2%	5.0%	0.4%	15.9%	20.7%	0.3%	465	\$130.1	\$1,127.9	\$314.5	\$1,442.4
2010	16.8%	13.4%	15.5%	18.5%	23.2%	0.4%	409	\$98.2	\$836.9	\$77.9	\$914.8
2009	25.0%	21.4%	19.7%	17.2%	21.1%	1.0%	386	\$80.0	\$541.2	\$10.5	\$551.7
2008	-22.8%	-25.2%	-36.9%	12.1%	15.4%	N/A	3	\$0.9	\$362.6	\$0.0	\$362.6
2007	2.1%	-0.9%	-0.2%	6.9%	8.1%	N/A	3	\$1.1	\$448.1	\$0.0	\$448.1
2006	17.7%	14.3%	22.3%	6.0%	6.7%	N/A	3	\$1.0	\$487.2	\$0.0	\$487.2
2005	5.7%	2.6%	7.1%	8.7%	9.5%	0.4%	18	\$9.3	\$463.6	\$0.0	\$463.6
2004	13.1%	9.8%	16.5%	12.7%	14.8%	0.4%	18	\$8.9	\$388.1	\$0.0	\$388.1
2003	23.3%	19.7%	30.0%	14.2%	16.0%	1.1%	21	\$8.5	\$231.0	\$0.0	\$231.0
2002	-9.0%	-11.7%	-15.5%	N/A	N/A	0.5%	42	\$11.0	\$110.7	\$0.0	\$110.7
2001	14.6%	11.3%	-5.6%	N/A	N/A	1.2%	45	\$12.4	\$82.2	\$0.0	\$82.2

\*For GIPS® purposes, UMA assets are not part of Firm Assets and are not considered “under management” since EIC has no trading discretion. The “UMA Assets” and “Total” asset amounts are shown as supplemental information.

<sup>1</sup> Dispersion is an asset-weighted standard deviation for the accounts in the composite the entire year (or year-to-date).

<sup>2</sup> Results include SMA accounts and 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% (0.25%/month during 2001-2014, and 0.75%/quarter during 2001).

<sup>3</sup> Number of Portfolios/Composite Assets significantly decreased in 2014 due to transitioning of a major SMA program to a model based (UMA) program during Q414. N/A – Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

**Additional Note:** The three year annualized standard deviation measures variability of the composite (gross of fees) and the benchmark returns over the preceding 36 month period.

## Large-Cap Value SMA Composite Performance Description (cont'd)

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Performance has been measured on a monthly basis from January 1, 2001 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. During 2002, 2% of the assets are non-fee paying accounts. There are no non-fee paying accounts during any other period. 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, 2015. 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. The Large-Cap Value SMA composite has been examined for the periods January 1, 2001 through March 31, 2015. The verification and composite examination reports, as well as a complete list and description of 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](http://www.adviserinfo.sec.gov)).

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