

EQUITY INVESTMENT CORPORATION

2016 Second Quarter All-Cap & Large-Cap Value Commentary

July 2016

Value indices are performing relatively well this year, with the Russell 3000[®] Value (R3000V) and Russell 1000[®] Value (R1000V) indices each rising 4.6% last quarter, resulting in year-to-date gains of 6.3%. In comparison, the Russell 3000[®] Growth and Russell 1000[®] Growth indices have risen only 1.1% and 1.4% year-to-date, respectively. This improvement in the value indices follows a significant cumulative underperformance over the previous nine years¹. Our All-Cap Value SMA (ACV) and Large-Cap Value SMA (LCV) composites rose 4.4% and 4.3% year-to-date, respectively, and 2.8% and 2.6%, for the quarter, respectively (all gross of fees). Net of 3% hypothetical maximum annual SMA fees, year-to-date returns for ACV and LCV would be 2.8% and 2.7%, respectively, while second quarter returns would be 2.0% and 1.9%.²

Our cash position continues to be high (approximately 19% in established accounts at quarter end), because we find very few compelling opportunities in today's market. Given this year's market increase, cash has been the largest factor contributing to our underperformance, both for the quarter and year-to-date. Our underweighting in yield-oriented utilities and telecommunication stocks, the strongest performing market segments year-to-date, also played a role. These sectors rose due to further declines in interest rates, with the 10-year Treasury rates falling to 1.5% (as of 6/30/16). Utilities are long-duration investments that will be negatively impacted when interest rates return to historically normal levels, and we believe today's prices ignore that longer-term risk.

Commodity-dependent stocks (energy and materials) were the second strongest performing market segment. They rose as energy prices rallied off lows set in February following dramatic declines over the previous two years, and as gold prices climbed on expectations of increased monetary easing. In light of the weak-demand environment, consumer staples and health care have likewise been among the leading sectors. We were overweight both sectors (about 27% of portfolios versus about 18-19% for the benchmarks). This overweight contributed to results, while also providing some protection from the weak economic environment. Our health care holdings performed particularly well, rising more than 12% last quarter.

Two areas where we feel prices are least stretched are consumer discretionary and financial stocks, but they have been the market's worst performers, posting declines overall year-to-date. The generally weak environment has slowed revenue growth and reduced margins, directly impacting discretionary stocks. At the same time, declining interest rates and reduced net interest margins have put pressure on earnings expectations for financial stocks.

For some time we have repeated our concern that interest rates seem unsustainably low while earnings seem unsustainably high. Neither concern has yet to be significantly stress-tested in equity markets. Reported earnings growth on a per share basis has been over-stated for some years through the use of financial engineering, particularly the use of leverage to fund buy-backs and "accretive" acquisitions. Also, many international firms have increased earnings by using offshore tax loopholes to reduce tax rates. Some of these earnings and presumed growth are getting capitalized in today's markets.

Meanwhile, despite generally low corporate profit growth in recent years, prices compared to normalized GAAP earnings remain high. Therefore, we continue to believe that from an investment perspective, this is a time for caution.

Portfolio Review

The volatility resulting from Brexit was fleeting and did not drive prices low enough on a broad basis to present new opportunities. We did, however, add to our position in Target Corporation on price weakness after its earnings release indicated a slowdown in sales and consumer spending and provided decreased guidance for 2016. Target is managing margins, costs, and its balance sheet well within this environment, and in a market with few opportunities, we believe Target represents a quality company selling at an attractive value.

In contrast, we sold our position in Bed, Bath & Beyond, which also reported disappointing results, but whose margins and balance sheet show long-term structural decline, exacerbated by aggressive stock buy-backs to boost earnings per share.

Finally, Shire PLC offered to acquire one of our holdings, Baxalta. Baxter International, which we also own, offered a premium to exchange its shares for Baxalta shares, which Baxter retained from its earlier spin-off of Baxalta. We accepted the exchange and in the end, we now hold a small, <1% position in Shire PLC and a 2% position in Baxter International. A great deal of back-office effort was required to implement these actions for clients; we offer a special thanks to all our Trading and Operations staff for successfully dealing with a very complex transaction.

Footnote and Disclosure

¹ 01/01/2007-12/31/2015, cumulative performance was: 106.4% for Russell 3000[®] Growth, 107.9% for Russell 1000[®] Growth, 47.9% for Russell 3000[®] Value and 48.7% for Russell 1000[®] Value.

² 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.**

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. The securities identified and described above do not represent all of the securities purchased, sold or recommended for client accounts.

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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 ²	Hypothetical ² (3% annual) Net Rate of Return	Benchmark Return of Russell 1000® Value Index ⁴	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion ¹ of Annual Returns (St Dev)	Number of Portfolios ³	Composite Assets (\$ Millions)	Advisory-Only (UMA) and Managed Assets		
									UMA Assets* (\$ Millions)	GIPS® Firm Assets (\$ Millions)	Total* (\$ Millions)
2016 (through 6/30)	4.3%	2.7%	6.3%	8.8%	11.2%	0.4%	1139	\$342.8	\$1,588.1	\$3,534.8	\$5,122.9
2015	-4.5%	-7.3%	-3.8%	8.9%	10.7%	0.4%	1146	\$318.5	\$1,590.0	\$3,658.9	\$5,248.9
2014	15.0%	11.6%	13.5%	8.1%	9.2%	0.5%	361	\$159.4	\$1,657.7	\$3,862.6	\$5,520.3
2013	24.8%	21.2%	32.5%	9.4%	12.7%	0.5%	863	\$328.7	\$1,009.2	\$3,286.3	\$4,295.5
2012	10.0%	6.8%	17.5%	11.5%	15.5%	0.3%	658	\$197.2	\$665.6	\$2,301.1	\$2,966.7
2011	8.2%	5.0%	0.4%	15.9%	20.7%	0.3%	465	\$130.1	\$314.5	\$1,127.9	\$1,442.4
2010	16.8%	13.4%	15.5%	18.5%	23.2%	0.4%	409	\$98.2	\$77.9	\$836.9	\$914.8
2009	25.0%	21.4%	19.7%	17.2%	21.1%	1.0%	386	\$80.0	\$10.5	\$541.2	\$551.7
2008	-22.8%	-25.2%	-36.9%	12.1%	15.4%	N/A	3	\$0.9	\$0.0	\$362.6	\$362.6
2007	2.1%	-0.9%	-0.2%	6.9%	8.1%	N/A	3	\$1.1	\$0.0	\$448.1	\$448.1
2006	17.7%	14.3%	22.3%	6.0%	6.7%	N/A	3	\$1.0	\$0.0	\$487.2	\$487.2
2005	5.7%	2.6%	7.1%	8.7%	9.5%	0.4%	18	\$9.3	\$0.0	\$463.6	\$463.6
2004	13.1%	9.8%	16.5%	12.7%	14.8%	0.4%	18	\$8.9	\$0.0	\$388.1	\$388.1
2003	23.3%	19.7%	30.0%	14.2%	16.0%	1.1%	21	\$8.5	\$0.0	\$231.0	\$231.0
2002	-9.0%	-11.7%	-15.5%	N/A	N/A	0.5%	42	\$11.0	\$0.0	\$110.7	\$110.7
2001	14.6%	11.3%	-5.6%	N/A	N/A	1.2%	45	\$12.4	\$0.0	\$82.2	\$82.2

*"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 the entire year (or year-to-date).

² 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% (0.75%/quarter during 2001 and 0.25%/month thereafter).

³ 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)

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, 2016. 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, 2016. 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).

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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 ³	Hypothetical ³ (3% annual) Net Rate of Return	Benchmark Return of Russell 3000® Value Index ⁴	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion ¹ of Annual Returns (St Dev)	Number of Portfolios	Number of Accounts ²	Composite Assets (\$ Millions)	Advisory-Only (UMA) and Managed Assets		
										UMA Assets* (\$ Millions)	GIPS® Firm Assets (\$ Millions)	Total Assets* (\$ Millions)
2016 (through 6/30)	4.4%	2.8%	6.3%	8.9%	11.3%	0.4%	4282	430	\$1,837.1	\$1,588.1	\$3,534.8	\$5,122.9
2015	-4.4%	-7.2%	-4.1%	8.9%	10.7%	0.5%	4727	456	\$1,964.8	\$1,590.0	\$3,658.9	\$5,248.9
2014	14.9%	11.5%	12.7%	8.1%	9.4%	0.5%	5272	479	\$2,259.6	\$1,657.7	\$3,862.6	\$5,520.3
2013	24.7%	21.1%	32.7%	9.2%	12.9%	0.6%	4290	494	\$1,703.6	\$1,009.2	\$3,286.3	\$4,295.5
2012	10.0%	6.7%	17.6%	11.5%	15.8%	0.4%	2742	446	\$1,016.1	\$665.6	\$2,301.1	\$2,966.7
2011	7.4%	4.2%	-0.1%	16.3%	21.0%	0.6%	1398	362	\$556.0	\$314.5	\$1,127.9	\$1,442.4
2010	18.2%	14.7%	16.2%	18.7%	23.5%	0.5%	937	283	\$432.6	\$77.9	\$836.9	\$914.8
2009	26.9%	23.2%	19.8%	17.3%	21.3%	1.3%	743	152	\$282.7	\$10.5	\$541.2	\$551.7
2008	-22.9%	-25.2%	-36.3%	11.7%	15.5%	1.0%	946	235	\$220.2	\$0.0	\$362.6	\$362.6
2007	3.3%	0.3%	-1.0%	7.0%	8.3%	0.8%	935	230	\$283.5	\$0.0	\$448.1	\$448.1
2006	16.6%	13.1%	22.3%	6.2%	7.0%	0.8%	758	229	\$252.7	\$0.0	\$487.2	\$487.2
2005	2.8%	-0.3%	6.9%	8.8%	9.7%	0.7%	675	226	\$195.5	\$0.0	\$463.6	\$463.6
2004	13.9%	10.6%	16.9%	11.4%	14.8%	0.8%	531	176	\$137.4	\$0.0	\$388.1	\$388.1
2003	25.2%	21.6%	31.1%	13.6%	16.0%	0.8%	289	100	\$70.0	\$0.0	\$231.0	\$231.0
2002	-4.1%	-6.9%	-15.2%	15.9%	16.6%	1.5%	59	56	\$14.6	\$0.0	\$110.7	\$110.7
2001	16.9%	13.5%	-4.3%	15.7%	14.1%	0.8%	13	13	\$5.4	\$0.0	\$82.2	\$82.2
2000	18.6%	15.2%	8.0%	18.0%	16.8%	0.8%	16	16	\$6.5	\$0.0	\$62.3	\$62.3
1999	2.1%	-0.9%	6.6%	15.7%	15.9%	1.0%	27	27	\$13.0	\$0.0	\$64.1	\$64.1
1998	16.2%	12.8%	13.5%	14.5%	14.9%	0.9%	11	11	\$2.8	\$0.0	\$35.2	\$35.2
1997	30.1%	26.4%	34.8%	8.8%	9.5%	0.8%	12	12	\$4.9	\$0.0	\$38.8	\$38.8
1996	8.0%	4.8%	21.6%	7.7%	9.2%	0.6%	19	19	\$16.6	\$0.0	\$69.7	\$69.7
1995	19.7%	16.2%	37.0%	6.2%	8.3%	0.6%	42	42	\$23.0	\$0.0	\$93.4	\$93.4
1994	0.2%	-2.8%	-1.9%	5.7%	8.2%	0.8%	65	65	\$32.7	\$0.0	\$92.6	\$92.6
1993	11.3%	8.0%	18.7%	8.0%	9.5%	0.7%	72	72	\$44.0	\$0.0	\$84.5	\$84.5
1992	10.6%	7.4%	14.9%	12.5%	13.7%	0.9%	69	69	\$53.3	\$0.0	\$84.1	\$84.1
1991	37.0%	33.0%	25.4%	13.3%	14.5%	1.3%	58	58	\$35.6	\$0.0	\$48.9	\$48.9
1990	-8.0%	-10.7%	-8.8%	13.2%	13.5%	0.7%	59	59	\$25.8	\$0.0	\$30.4	\$30.4
1989	20.8%	17.3%	24.2%	18.0%	17.6%	1.6%	51	51	\$21.4	\$0.0	\$27.8	\$27.8
1988	27.4%	23.7%	23.6%	19.9%	18.9%	1.7%	14	14	\$6.0	\$0.0	\$8.0	\$8.0
1987	10.6%	7.4%	-0.1%	N/A	N/A	N/A	5	5	\$0.5	\$0.0	\$0.6	\$0.6
1986	25.0%	21.3%	18.8%	N/A	N/A	N/A	2	2	\$0.2	\$0.0	\$0.2	\$0.2

See next page for Table Notes and other disclosures

Equity Investment Corporation

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

Table Notes:

*"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). 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.

² 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.

³ 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%, 2010-2016: <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.

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