EQUITY INVESTMENT CORPORATION

2017 Second Quarter Commentary
All-Cap Value & Large-Cap Value
July 2017

In the second quarter, All-Cap Value SMA (ACV) and Large-Cap Value SMA (LCV) composites rose 2.3% and 2.2% (gross of fees[1]), respectively, versus 1.3% for both the Russell 3000® Value and Russell 1000® Value indices. Year-to-date, ACV and LCV composites rose 4.9% and 5.0% (gross of fees[1]), respectively, versus 4.3% for the Russell 3000 Value and 4.7% for the Russell 1000 Value. Net of a 3% hypothetical maximum annual SMA fee, results would be 1.5% for the quarter and 3.4% year-to-date for both ACV and LCV. Growth has significantly outperformed value so far in 2017, as evidenced by the S&P 500®'s gain of 3.1% for the quarter and 9.3% year-to-date.

While our performance this year has been ahead of our benchmark, the combination of slow earnings growth and increasing stock prices, coupled with minimal market volatility, continues to present a challenging investment environment for us. Consequently, cash levels remain elevated at high teen percentages in our ACV and LCV model portfolios. As a reminder, cash is a residual of our disciplined stock-selection process and neither a strategic call on market levels nor an attempt at market timing. Our process dictates that we raise valuations whenever warranted on both our holdings as well as prospective new investments. These valuation increases, which tend to occur when companies are sustainably growing earnings, allow us to continue to hold existing stocks in the portfolio, even as they near our original target price, or buy new stocks, even if their prices have not declined. Absent earnings growth however, and with ever rising stock prices, we are ultimately forced to sell stocks at a faster rate than we can replace them, which results in increased cash levels. This is the situation we find ourselves in today.

Investment Opportunities

We believe the recent "risk on" trend warrants repeating our words of caution to investors about potential market drawdowns and the length of time required to recover from them. A closer evaluation of the S&P demonstrates our concern over valuations. First quarter earnings growth for the S&P 500 came in at a strong 20% but was disproportionately driven by energy earnings turning positive as opposed to being negative last year. Only two other major sectors, information technology and financials, grew earnings at double digit rates, and in both cases they were up against prior-year earnings that had declined from the year before. Overall, S&P 500 earnings are still ***below*** the peak they reached in the third quarter of 2014 and have only grown a ***cumulative*** 15% over the last five years ending the first quarter of 2017 while the index has returned approximately 70% over the same period. At today's levels, the S&P 500 trades at 24x trailing GAAP earnings and a slightly better 22x on a pro-forma basis. Small- and mid-cap stocks appear even more expensive. While these levels are not the highest at which the market has ever traded, they are elevated by historical standards, hence our cautious stance.

It seems that after several years of market gains, many investors have become either braver or complacent. However, there is some doubt, and the questions we hear most often from clients seem to fit into a variation on the journalistic W's: *What, When and Why*? **What** is causing the market to remain so strong and placid? **When** will this trend end? **Why** will it end?

As to "what" is causing the market to remain so strong and placid, there is no shortage of factors that may be playing a part. Increases in passive indexing and algorithmic trading, low interest rates, a modest but positive expansionary economic backdrop and a benign credit cycle, all may be contributing in some way to current low volatility and the rise in stock prices, and thus company valuations. We believe the explanation is much simpler – in large part, the market continues to go up because it has been going up for so long. It appears to us that a self-fulfilling cycle is attracting investors almost solely based on past performance and not on the current realities of valuation and fundamental growth.

As to "when" the trend will end, it is difficult to predict, yet we note that the length of this expansion and the abnormally low level of volatility experienced are both already at historically outlier levels.

As to "why" the market may alter course, we can point to many potential causes in advance. On the global front, there is a credit binge in China and a related housing bubble in both Canada and Australia that are comparable or worse to the one we experienced in the United States. Closer to home, short-term interest rates are moving higher, which may present challenges to the credit markets and borrowers. Government action in the form of significant changes to the healthcare system and trade policy, or the inability to pass tax reform, could negatively surprise market participants. Finally, we might simply have a garden variety recession or tightening credit cycle. Any of these factors, or others currently unforeseen, may possibly reintroduce the notion of cyclicality and risk into investors' minds. We are not predicting any one outcome. Rather just as we have always positioned portfolios over the years, we strive to protect against a range of outcomes while prudently stewarding and growing our investors' capital.

Portfolio Review

During the second quarter, we exited our position in Whole Foods Markets after the announcement that Amazon would acquire it. Whole Foods' stock rose to the agreed price, slightly above our own assessment of the firm's value, where we sold. Shortly thereafter, we purchased a small position in Kroger, which has seen its shares slump in recent years on increasing grocery competition and fell farther with the Amazon/Whole Foods announcement in anticipation of even greater challenges to come. While Amazon's entry into grocery is likely to intensify an already difficult environment, Kroger is accustomed to the hyper-competitive grocery business, is a well-managed operator with nationwide scale, and was available to us at an attractive entry price.

We added modestly to our position in Diamond Offshore. Diamond has been a poor performer on continued commodity weakness and concerns about uncertain offshore drilling activity. Nonetheless, Diamond is prudently capitalized, conservatively managed, and free cash flow positive. While it faces ongoing risk, potential upside is considerable, and we believe it merits a small weighting.

Finally, we trimmed our position in eBay, which has been a strong performer for us year-to-date.

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

Investment Team

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See disclosures on the next page.

[1]<u>Disclosures</u>

Returns are supplemental to 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 may possibly be reduced by brokerage firm wrap fees, which include transaction costs, portfolio management, custody, and other administrative fees.***

EIC's ACV and LCV results are those of our <u>All-Cap Value SMA</u> and <u>Large-Cap Value SMA</u> Composites gross (before all fees) and net of (after) assumed maximum annual SMA fees of 3% (0.25% per month). SMA fees include transaction 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. Actual portfolio holdings may vary for each client, and there is no guarantee that a particular client's account will hold any, or all, of the securities identified. The reader should not assume that an investment in the securities identified was or will be profitable.

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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. 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 will continue to be managed using the same investment process. 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.

									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 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)	UMA Assets* ($ Millions)	GIPS® Firm Assets ($ Millions)	Total* ($ Millions)
2017 (through 6/30)	5.0%	3.4%	4.7%	8.0%	10.4%	0.4%	932	$287.1	$1,960.6	$2,786.3	$4,746.8
2016	11.9%	8.6%	17.3%	8.5%	10.8%	0.5%	938	$289.0	$2,044.5	$2,994.4	$5,038.9
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	$1,442.5
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	$551.8
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 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% (0.75%/quarter during 2001 and 0.25%/month thereafter).

[3] Number of Portfolios/Composite Assets significantly decreased in Q4, 2014 and Q4, 2016 due to transitioning of two major SMA programs to model based (UMA) programs.

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.

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, 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. The Large-Cap Value SMA composite has been examined for the periods January 1, 2001, through March 31, 2017. 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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									Advisory-Only (UMA) and Managed Assets		
Year Ended Dec - 31	Supplemental Gross Rate of Return[1]	Hypothetical[1] (3% annual) Net Rate of Return	Benchmark Return of Russell 3000® Value Index	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion[2] of Annual Returns (St Dev)	Number of Portfolios[3]	Composite Assets ($ Millions)	UMA Assets* ($ Millions)	GIPS® Firm Assets ($ Millions)	Total Assets* ($ Millions)
2017 (through 6/30)	4.9%	3.4%	4.3%	8.2%	10.6%	0.2%	2652	$1,289.0	$1,960.6	$2,786.3	$4,746.8
2016	12.2%	8.9%	18.4%	8.6%	11.0%	0.5%	2893	$1,406.1	$2,044.5	$2,994.4	$5,038.9
2015	-4.4%	-7.2%	-4.1%	8.9%	10.7%	0.5%	4727	$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	$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	$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	$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	$556.0	$314.5	$1,127.9	$1,442.5
2010	18.2%	14.7%	16.2%	18.7%	23.5%	0.5%	937	$432.6	$77.9	$836.9	$914.8
2009	26.9%	23.2%	19.8%	17.3%	21.3%	1.3%	743	$282.7	$10.5	$541.2	$551.8
2008	-22.9%	-25.2%	-36.3%	11.7%	15.5%	1.0%	946	$220.2	$0.0	$362.6	$362.6
2007	3.3%	0.3%	-1.0%	7.0%	8.3%	0.8%	935	$283.5	$0.0	$448.1	$448.1
2006	16.6%	13.1%	22.3%	6.2%	7.0%	0.8%	758	$252.7	$0.0	$487.2	$487.2
2005	2.8%	-0.3%	6.9%	8.8%	9.7%	0.7%	675	$195.5	$0.0	$463.6	$463.6
2004	13.9%	10.6%	16.9%	11.4%	14.8%	0.8%	531	$137.4	$0.0	$388.1	$388.1
2003	25.2%	21.6%	31.1%	13.6%	16.0%	0.8%	289	$70.0	$0.0	$231.0	$231.0
2002	-4.1%	-6.9%	-15.2%	15.9%	16.6%	1.5%	59	$14.6	$0.0	$110.7	$110.7
2001	16.9%	13.5%	-4.3%	15.7%	14.1%	0.8%	13	$5.4	$0.0	$82.2	$82.2
2000	18.6%	15.2%	8.0%	18.0%	16.8%	0.8%	16	$6.5	$0.0	$62.3	$62.3
1999	2.1%	-0.9%	6.6%	15.7%	15.9%	1.0%	27	$13.0	$0.0	$64.1	$64.1
1998	16.2%	12.8%	13.5%	14.5%	14.9%	0.9%	11	$2.8	$0.0	$35.2	$35.2
1997	30.1%	26.4%	34.8%	8.8%	9.5%	0.8%	12	$4.9	$0.0	$38.8	$38.8
1996	8.0%	4.8%	21.6%	7.7%	9.2%	0.6%	19	$16.6	$0.0	$69.7	$69.7
1995	19.7%	16.2%	37.0%	6.2%	8.3%	0.6%	42	$23.0	$0.0	$93.4	$93.4
1994	0.2%	-2.8%	-1.9%	5.7%	8.2%	0.8%	65	$32.7	$0.0	$92.6	$92.6
1993	11.3%	8.0%	18.7%	8.0%	9.5%	0.7%	72	$44.0	$0.0	$84.5	$84.5
1992	10.6%	7.4%	14.9%	12.5%	13.7%	0.9%	69	$53.3	$0.0	$84.1	$84.1
1991	37.0%	33.0%	25.4%	13.3%	14.5%	1.3%	58	$35.6	$0.0	$48.9	$48.9
1990	-8.0%	-10.7%	-8.8%	13.2%	13.5%	0.7%	59	$25.8	$0.0	$30.4	$30.4
1989	20.8%	17.3%	24.2%	18.0%	17.6%	1.6%	51	$21.4	$0.0	$27.8	$27.8
1988	27.4%	23.7%	23.6%	19.9%	18.9%	1.7%	14	$6.0	$0.0	$8.0	$8.0
1987	10.6%	7.4%	-0.1%	N/A	N/A	N/A	5	$0.5	$0.0	$0.6	$0.6
1986	25.0%	21.3%	18.8%	N/A	N/A	N/A	2	$0.2	$0.0	$0.2	$0.2

See next page for Table Notes and other disclosures

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] Results include SMA accounts and gross returns 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).
[2] 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.
[3] Number of Portfolios/Composite Assets significantly decreased in 2016 due to transitioning of a major SMA program to a model based (UMA) program during Q416.
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 - Qtr. 2, 2017: <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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