EQUITY INVESTMENT CORPORATION

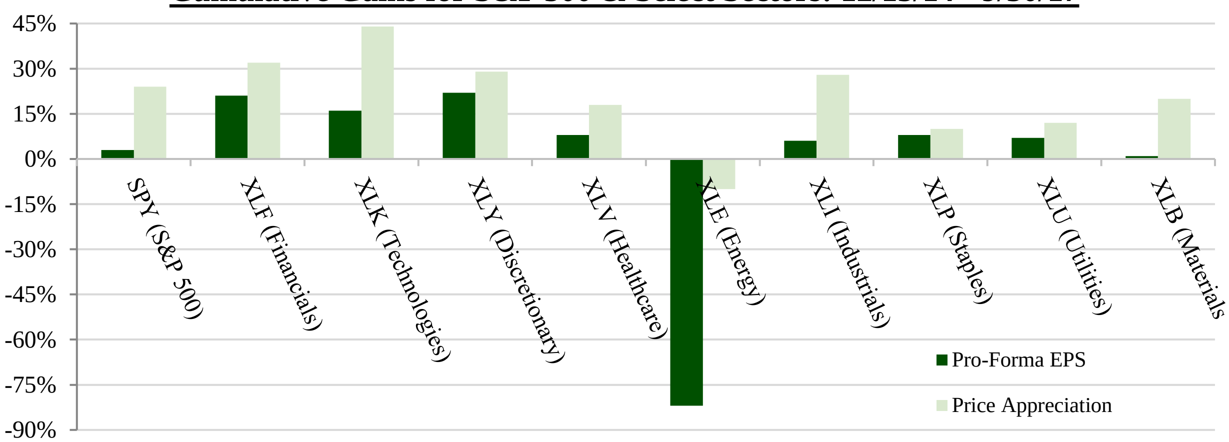
2017 Third Quarter Commentary
Mid-Cap Value
October 2017

In the third quarter, our Mid-Cap Value (MCV) SMA composites rose 3.5% (gross of fees[1]), versus 2.1% for the Russell Midcap® Value index. Net of a 3% hypothetical maximum annual SMA fee, results would be 2.7% for the quarter. Year-to-date, the MCV SMA composite rose 6.5% (gross of fees[1]), versus 7.4% for the Russell Midcap Value Index. Net of a 3% hypothetical maximum annual SMA fee, results would be 4.1% year-to-date. As measured by the Russell 3000 style indices, growth has outperformed value by the widest margin since 2009. In fact, growth stocks have now outperformed value stocks for the majority of the last eleven calendar years. Despite a brief respite in 2016 (especially post-election), the first three quarters of 2017 have extended the longest period of growth-stock dominance in decades.

Investment Environment

Recent economic data has been positive: employment levels have climbed, GDP has strengthened and earnings per share have grown. Through the lens of our value discipline, however, these improvements (and more) are already reflected in stock prices, thus creating an unappetizing opportunity set. At today's levels, the S&P 500® trades at approximately 22x trailing pro-forma earnings, 24x trailing GAAP earnings, and 20x forward earnings estimates[2]. We think mid-cap stocks are even more richly priced. While not the most expensive market in history, it is among the priciest, especially considering the relatively sluggish earnings environment. Earnings per share are growing this year, but until the second quarter, S&P 500 Index earnings had not eclipsed the highs last reached in 2014. Much of that softness was due to declines in the energy sector, but in most other sectors stock price gains have outpaced earnings growth, as evidenced in the following chart:

Cumulative Gains for S&P 500 & Select Sectors: 12/13/14 - 9/30/17



Source: Standard & Poors; S&P and sector earnings data through most recent reported quarter; ETF prices from Yahoo! Finance

Since S&P 500 earnings last peaked in 2014, they have grown a total of 3%, but prices are 24% higher. Going back to our year end 2014 commentary, at that time, we already saw the market as challenging:

"While we do not know what the future holds, we do know low interest rates have created a complex investment environment both by lifting prices (so there are fewer attractively priced opportunities), and by making the determination of economic value more difficult."

This is now one of the longest bull markets on record, and a period of unusually muted stock volatility. Among other factors, we believe that the prolonged state of low interest rates is having a significant, though likely temporary, effect on the psychology of the markets and valuations. Rational investors are seeking alternatives to "risk-free" Treasuries yielding from 1-3%, and in doing so, they are becoming more comfortable bidding all manner of riskier assets higher. If Treasury bonds yield 2%, then equities at a 4-5% earnings yield priced at 20-24x earnings, makes sense, at least theoretically. What this comparison assumes, though, as it does for buying any other long-term risk asset, is that interest rates won't change. To quote Warren Buffett, "If we knew interest rates were going to be zero from here to judgement day, we could pay a lot of money for any other asset."

Unfortunately, the future is, as always, uncertain. Higher interest rates would directly affect the discount rates used to value long-term assets like equities, and, all else equal, reduce their values. However, it has been so long without meaningfully higher rates, or stock price volatility, a recession, credit cycle, etc., that we think many investors have forgotten the eventual certainty of at least some of those outcomes. Most investors' memories are short, but consider that the financial crisis was nine years ago, in 2008, which means there is a new generation of clients, advisors, analysts and portfolio managers whose sole adult investing experience is one buoyed by low rates and relatively calm, upwardly moving markets, where every dip is an immediate buying opportunity. This is a market where, in the short run, memory and experience tends to be a liability. We think the ability to manage through adverse environments will prove beneficial once again.

We continue to view our role as managing clients' capital through any scenario the market throws at us - protecting against what may happen, rather than predicting what will happen. By focusing on earnings sustainability and quality, and sticking to a valuation discipline, we seek to produce reasonable absolute returns when risks are being ignored (like today), suffer less when those risks are realized (which they invariably will be), and in doing so come out ahead versus the markets over time (which we have done historically).

Portfolio Review

Turnover was low during the third quarter, as is typical for us during periods of elevated market prices and lower volatility. Consistent with our history, we expect turnover to increase when volatility and more attractive investment opportunities return.

We bought a new positions in drug distributor McKesson Corporation, which we have owned in our All- and Large-Cap portfolios since late last year. Due in part to Amazon's rumored plans to enter the pharmaceutical distribution industry, McKesson's market cap has declined, thus allowing purchase in our Mid-Cap portfolios. In addition to possible competition from Amazon, the pharmaceutical procurement and distribution segment has been pressured by a number of other concerns: 1) negative publicity (and fear of it spreading) related to specialty pharma abuses and certain generic drug pricing, 2) a slow-down in pharma price inflation, which pressures margins within this group, and 3) uncertainty of how profits will be impacted by changing health care laws and regulations. We believe the resulting stock-price decline has created an attractive entry point and offers good compensation for the risks undertaken today.

We added to three positions during the quarter: PPG Industries, Inc., Mack-Cali Realty Corporation and TCF Financial Corporation, all at what we believe are attractive valuations.

We trimmed Baxter International, Inc. and The Hanover Insurance Group, Inc. Both companies have been strong performers and prices are near our assessment of full value, prompting us to reduce exposure in order to manage price risk.

Personnel

We would like to end our commentary by giving our very own John Stewart the written equivalent of a standing ovation. John joined EIC back in 2007 as our first and, at the time, only sales director, and he has been instrumental in helping to grow our firm and represent us professionally from coast to coast. As many of you know, John has decided to retire at the end of this year, and his gentlemanly Southern charm combined with numerous contributions, both tangible and intangible, will be sorely missed. Though John's shoes will be hard to fill, we are excited to announce that Matt Keeter has joined EIC to represent us in the Southeast. Matt and John will be working closely over the next quarter to transition responsibilities and relationships. We welcome Matt to EIC and wish John well in his retirement.

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

Investment Team

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

Disclosures

[1]*Returns are presented as 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 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 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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[2]Source: Standard & Poors. Trailing twelve month earnings as of June 30, 2017; forward earnings estimates for calendar year 2017. Prices as of September 30, 2017, from Yahoo! Finance.

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 Return²	Hypothetical² (3% annual) Net Rate of Return	Benchmark Return of Russell Midcap® Value Index³	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion¹ of Annual Returns (St Dev)	Number of Portfolios	Composite Assets ($ Millions)	UMA Assets* ($ Millions)	GIPS® Firm Assets ($ Millions)	Total* ($ Millions)
2017 (through 9/30)	6.5%	4.1%	7.4%	7.4%	10.3%	0.6%	20	$5.1	$1,979.5	$2,711.8	$4,691.3
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	$1,442.5
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	$551.8
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.

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 June 30, 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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