EQUITY INVESTMENT CORPORATION

2014 Year-End Commentary
All-Cap Value & Large-Cap Value (Tax-Aware & Tax-Neutral)

While a New Year often begins with prognostications, the oft-repeated words of my depression-era Grandmother that "you never know what the future holds" are perhaps the wisest with which to begin. Who would have imagined a year ago that interest rates would fall to new lows despite the Federal Reserve's taper, oil prices would collapse despite economic growth, the dollar would rise enough to threaten the 'U.S. industrial-export renaissance' narrative, or equity markets would post double-digit increases on top of 50%+ gains of the prior two years? We will probably be similarly surprised by 2015's events, but what they shall be, we have no clue. You never know what the future holds…

Our 2014 investment results were another surprise. Despite holding some cash, and our historical pattern of underperforming strong late-cycle bull markets, our All-Cap Value (ACV) and Large-Cap Value (LCV) accounts gained an average of 5.6% (gross of fees[1]) during the fourth quarter versus 5.3% and 5.0%, respectively, for the Russell 3000® Value and Russell 1000® Value indices. Moreover, for the year our ACV and LCV accounts rose an average of 14.9% and 15.0% versus 12.7% and 13.5% for the Russell 3000® Value and Russell 1000® Value indices. The primary contributors to this performance were our over-weight and strong stock performance within consumer staples, and our under-weight and relatively strong stock performance within the energy sector. These positives were partially offset by disappointments with our two investments in gold-mining stocks plus the drag from cash.

The continued decline in interest rates exacerbates an already difficult investment task, providing more cheap money for financial engineering (stock buybacks, debt refinancing at low rates, cash-accretive acquisitions, etc.). These actions distort underlying fundamentals so earnings and growth appear more robust than reality. This makes the process of valuing a company extremely difficult since the primary ingredients in valuation are normalized earnings, long-term growth, and an appropriate hurdle rate. These distortions mask the significant disruption to historical growth rates since 2008. Meanwhile, low current interest rates result in hurdle rates that may be too low for long-term investment horizons.

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 cheap-money fuel is still on the fire, and may cause further growth in takeovers and leveraged buy outs in 2015. Thus, we cannot say when the market's rise will come to an end. However, we would view a correction as positive for long-term investors.

Portfolio Review

Portfolio activity increased during the fourth quarter, partly reflecting changes in energy markets. We had been underweight the energy sector, especially the stocks of oil companies, because of the disparity between oil and natural gas prices in terms of BTU equivalents. This disparity meant earnings of oil producers were inflated while earnings for natural gas producers were depressed. Our weighting within energy has favored natural gas, with the view that the BTU disparity will narrow. Devon Energy was one such purchase in 2012, and we trimmed it on strength in early 2014. As Devon's capital investments increased its exposure to oil, however, we sold our position in favor of a new purchase in Southwestern Energy, a low-cost natural gas producer.

Subsequently, as oil prices fell, we purchased a new position in Diamond Offshore Drilling. Because of its exposure to offshore drilling, pricing and utilization of its drill rigs has and will continue to suffer. As a result, earnings and the stock price have fallen. While further declines in oil prices will exact a further toll on the firm, Diamond Offshore is one of the best-capitalized operators in the arena, partly due to the financial strength of its majority shareholder, Loews Corporation. We believe it will be able to endure the full cycle while possibly taking advantage of the greater stress faced by weaker competitors.

We also added a new position in Honda, whose return on capital, earnings, and price have been impacted by post-2008 global economic weakness, recapitalized competitors in the US, and recent airbag recalls. Nonetheless, Honda is a well-run manufacturer. It is diversified both geographically, and in its product line-up, which includes automobiles, motorcycles and power tools. We believe the depressed price offers a fair entry point for a successful long-term business.

Finally, we added a new position in T. Rowe Price. Prices for asset management firms have lagged the market due to concerns about the potential impact on earnings if we experience another decline like 2008-2009. Despite such potential volatility, our valuation methodology favors these types of firms because of their high returns on capital and long-term growth (derived from the market, increased savings and increased market share). T. Rowe Price is one of the steadiest growers in the industry, while producing returns on capital of almost 20%. It has no debt plus over $5.00 per share in cash. It is a firm we have owned before; it should be a strong long-term holding again at today's price.

Because of these additions our cash position declined slightly from 12% last quarter to 9% today. However, if market prices continue to rise, cash could begin to increase again. For us, cash is a residual of the bottom-up search for value opportunities, not a tactical timing device.

Tax Efficiency

Tax efficiency is driven by the amount of gains realized and the degree to which gains are short-term versus long-term (since long-term rates receive more favorable tax rates). The drag from taxes can be greater than investors realize. For example, a 10% pre-tax return will fall to 5.7% after-tax if a manager realizes 100% of gains each year as short-term (assuming current maximum Federal tax rates). Thus, deferral of gain recognition and minimizing short-term gains are important management decisions affecting after-tax returns for clients.

As a result of the 3-year market rise, our realized gains in 2014 were larger than usual (about 8% of average portfolio values), but just over 98% of these gains were long-term. As a result, we estimate a client exposed to the highest Federal tax brackets (23.8% long-term / 43.4% short-term rates) would have realized an after-tax return of about 12.6% in 2014 (gross of fees), for a tax efficiency of 84%.

New Socially-Responsible Investment Options (SRI Portfolios)

Last year we began making investments in staff and information resources so we could better serve clients who have approached us to invest funds using our same investment philosophy and process, while avoiding investment choices that violated their own faith or societal values. Our mission objective is to reconcile the conflicts that can arise between an investor's fiduciary and social responsibilities. Our investment objective is to deliver the same pattern of returns we have provided with our unrestricted portfolios (strong in down markets, better than expected during recovery markets, and lag late-cycle low-quality/momentum markets). Investments for these SRI Portfolios will be drawn principally from our existing holdings in our All-Cap, Large-Cap, and Mid-Cap Value portfolios. Additional replacement names will be introduced as necessary. We have established portfolios for the following social mandates:

1. Catholic – Follows U.S. Conference of Catholic Bishops (USCCB) guidelines, restricting investments in firms tied to abortion, contraceptives, stem cells and weapons manufacturing or implicated in human rights, labor rights, environmental, or governance controversies.

2. Protestant – Restricts investments in companies tied to adult entertainment, alcohol, firearms, gambling, tobacco, weapons manufacturing, or implicated in human rights, labor rights, environmental or governance controversies.

3. Environment – Focused on sustainability and avoidance of fossil fuel producers, poor environmental performers, factory farmers, genetic engineers and those participating in animal testing.

4. Human Rights – Restricts investments in weapons manufacturers, companies found to be in violation of the EEOC or OFAC sanctions, and companies implicated in human rights, labor rights, environmental or governance controversies.

If you have clients for whom such approaches may be appropriate, please let us know and we will be happy to provide additional information.

- Jim Barksdale

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`[1]***For Financial Professionals Only*** *- 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 the composite.*

EIC's ACV and LCV results are those of our All-Cap Value SMA and Large-Cap Value SMA Composites gross of (before) all fees. After assumed maximum annual SMA fees of 3% (0.25% per month), the ACV SMA net returns were 4.8% for Qtr. 4 and 11.5% for the year. LCV SMA net returns were 4.8% for Qtr. 4 and 11.6% for the year. SMA fees include trading costs, portfolio management, custody, and other administrative expenses.

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[3]	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion[1] of Annual Returns (Standard Deviation)	Number of Portfolios	Composite Assets ($ mm)	Composite Assets as % of Total Product Assets	Total Firm Assets ($ Millions)	UMA Assets* ($ Millions)	Total* ($ Millions)
2014	15.0%	11.6%	13.5%	8.1%	9.2%	0.5%	361	$159.4	52%	$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	77%	$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	76%	$2,301.1	$665.6	$2,966.7
2011	8.2%	5.0%	0.4%	15.9%	20.7%	0.3%	465	$130.1	93%	$1,127.9	$314.5	$1,442.4
2010	16.8%	13.4%	15.5%	18.5%	23.2%	0.4%	409	$98.2	93%	$836.9	$77.9	$914.8
2009	25.0%	21.4%	19.7%	17.2%	21.1%	1.0%	386	$80.0	99%	$541.2	$10.5	$551.7
2008	-22.8%	-25.2%	-36.9%	12.1%	15.4%	N/A	3	$0.9	100%	$362.6	$0.0	$362.6
2007	2.1%	-0.9%	-0.2%	6.9%	8.1%	N/A	3	$1.1	100%	$448.1	$0.0	$448.1
2006	17.7%	14.3%	22.3%	6.0%	6.7%	N/A	3	$1.0	19%	$487.2	$0.0	$487.2
2005	5.7%	2.6%	7.1%	8.7%	9.5%	0.4%	18	$9.3	52%	$463.6	$0.0	$463.6
2004	13.1%	9.8%	16.5%	12.7%	14.8%	0.4%	18	$8.9	51%	$388.1	$0.0	$388.1
2003	23.3%	19.7%	30.0%	14.2%	16.0%	1.1%	21	$8.5	100%	$231.0	$0.0	$231.0
2002	-9.0%	-11.7%	-15.5%	N/A	N/A	0.5%	42	$11.0	100%	$110.7	$0.0	$110.7
2001	14.6%	11.3%	-5.6%	N/A	N/A	1.2%	45	$12.4	79%	$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.

[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% (0.25%/month during 2001-2014, and 0.75%/quarter during 2001).
[3] Source: Morningstar Direct.

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 September 30, 2014. 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 September 30, 2014. 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).

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. 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 (Standard Deviation)	Number of Portfolios	Number of Accounts[2]	Composite Assets ($ mm)	Total Firm Assets ($ Millions)	UMA Assets* ($ Millions)	Total* ($ Millions)
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

Table Notes:

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[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).
[4] Source: Morningstar Direct.
N/A – Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
<u>Additional Notes</u>: The three year annualized standard deviation measures variability of the composite and the benchmark returns over the preceding 36 month period.

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*Hypothetical Net Rate of Return assumes a maximum annualized SMA fee of 3%. (0.25% per month)