EQUITY INVESTMENT CORPORATION

2015 Year-End All-Cap & Large-Cap Value Commentary

January 2016

Market indices rose last quarter, with the Russell 3000® Value (R3000V) and Russell 1000® Value (R1000V) indices rising 5.4% and 5.6%, respectively. Our All-Cap Value SMA (ACV) and Large-Cap Value SMA (LCV) composites rose somewhat less, 4.3% and 4.1%, respectively, before all fees[1].

Despite these increases, it was a disappointing year for value-oriented investors. As shown below, the growth vs. value performance spread in 2015 exceeded 9% for the Russell 3000® and Russell 1000® indices, the largest gap since 2009. Moreover, value-oriented investors have now faced a headwind for almost a decade, with growth outpacing value at a ratio of slightly over 2:1 since 2006.

Value-Growth Style Divergence

	1/1/2015 - 12/31/2015			1/1/2007 - 12/31/2015		
Cap-Size Index	Value	Growth	**Difference**	Value	Growth	**Difference**
Russell 200® *(Mega-Cap)*	-3.4%	8.2%	**11.6%**	39.8%	113.5%	**73.6%**
Russell 1000® *(Large-Cap)*	-3.8%	5.7%	**9.5%**	48.7%	107.9%	**59.3%**
Russell 3000® *(All-Cap)*	-4.1%	5.1%	**9.2%**	47.9%	106.4%	**58.5%**
Russell *Midcap*®	-4.8%	-0.2%	**4.6%**	73.1%	98.0%	**24.9%**
Russell 2000® *(Small-Cap)*	-7.5%	-1.4%	**6.1%**	39.3%	89.6%	**50.3%**

Source: Morningstar Direct SM

Our full-year results were slightly below the value indices', with our ACV and LCV composites recording returns of -4.4% and -4.5%, respectively, before all fees[1]. Since we entered the fourth quarter ahead of the benchmark indices, the small shortfall for the year resulted from not keeping up with Q4's rise.

Net of 3% hypothetical maximum SMA fees, ACV returns would be 3.5% for the quarter and -7.2% for the year, and LCV returns would be 3.3% for the quarter and -7.3% for the year[1].

2015 Value vs. Growth Results & Market Environment

As the table above shows, the value-growth spread was the greatest at the upper end of the cap-size spectrum and the least among mid- and small-cap stocks, where growth indices were also negative for the year. This reflects the narrowness of 2015's market, where gains were concentrated in a few technology companies (Facebook, Amazon, Netflix, and Google - collectively, the FANG stocks), as well as in a few consumer companies that managed to sustain growth, such as Home Depot, Nike, and Starbucks. As we said in our Third Quarter Commentary, these firms sell at high prices relative to earnings and thus reflect high investor expectations regarding future earnings growth. However, considerable downside risks are presented by such companies when expectations prove overly optimistic.

The decline in energy and commodity prices also played a significant role. In addition to the energy and materials sectors having a higher average combined weighting in value indices than in growth (14.7% vs. 6.5% for the Russell 3000® indices), the sectors also fell significantly for the year (-24.3%, energy, and -13.5%, materials, for the R3000V). While we were underweight in these sectors versus the value benchmarks (10.4% in ACV and LCV), our selected stocks performed poorly, as discussed later.

To summarize today's market, the economic environment has become somewhat hostile to earnings growth as declines in energy prices have reduced industrial spending and capital expenditures, a strong dollar has impacted exports, and weak wage growth has resulted in tepid consumer spending. As a result, very few firms have been able to sustain revenue and earnings growth, and stock declines have been broadly distributed. Companies able to counter this environment have been accorded relatively high price/earnings multiples, making them unsuitable for value-oriented strategies.

Our longer-term concern is the misallocation of capital – by corporations and investors – resulting from a sustained low interest-rate environment. Low rates have encouraged corporations to “manufacture” earnings growth via buybacks and acquisitions, increasing corporate debt while reducing equity. We believe many of these purchases will ultimately be viewed as capital misallocations, justifiable because financing costs were low rather than because prices paid were reasonable. Moreover, non-GAAP measures are increasingly employed to portray earnings as higher than actual through pro-forma add-backs of stock-based compensation, intangible amortization, restructuring charges, and other “one-time” expenses. In a world where investors are seeking some alternative to zero-yielding cash, such non-GAAP measures have now become “generally accepted.” Therefore, investors may be misallocating capital by paying more for true earnings than they realize.

Key Drivers of Our 2015 Results

We view 2015 as a year with some of our most significant investment disappointments since inception. High overall prices (especially among companies able to deliver real growth), low earnings quality, and weak underlying growth clearly played a role. However, it is not useful to only blame the environment in lieu of looking inward, so we will discuss what we view as our key mistakes.

But first, with this context as backdrop, we were pleased that our 2015 results came in as close to the value indices as they did. This is testimony to both our under-betting of investment decisions via conservative position sizes, and to the fact that a high proportion of investments worked out well. These included our technology holdings (Microsoft and eBay/PayPal), our financial holdings (Mack-Cali Realty, Chubb, Travelers, Torchmark, SunTrust, and other banks), our health care positions (Baxter/Baxalta, CVS, Johnson & Johnson, and Medtronic), our investments in consumer staples (Dr Pepper Snapple, Molson Coors, PepsiCo, and Whole Foods Market), and finally, Honda.

The largest detractor from our 2015 results was the energy sector. Historically, we have navigated this sector well by moving from popular to out-of-favor areas, shifting our exposure between oil and natural gas, and among integrated, drilling, and exploration and production (E&P) companies. In late 2014, as oil prices fell, the integrated firms held up better than most in the sector. This led us to reduce our integrated exposure and to add positions in harder-hit energy areas, including a driller (Diamond Offshore) and an E&P company (Southwestern Energy). Unfortunately, the subsequent collapse in both oil and natural gas prices further impacted both, resulting in significant stock declines. While we correctly underweighted energy for the year, these purchases did not incorporate a sufficient margin of safety to reflect the earnings volatility given the dramatic fall in energy prices. In retrospect, we should have stayed with our late-2014 energy posture, with greater weighting in the more stable integrated oils.

Our other stock selection disappointments were driven in large part by concerns to keep cash from creeping too high, knowing that previous monetary-induced liquidity cycles lasted longer than expected (1995-2000 and 2003-2007) and that excessive cash can create other investment issues. Of our three new stock additions in 2015, two proved to be early (Qualcomm and Franklin Resources), as earnings suffered after our purchase when business conditions continued to deteriorate. In general, we try to purchase long-term productive business franchises when they are experiencing some short-term difficulty that causes investors to shorten their time horizons and sell, rather than to view themselves as long-term owners. However, experience has shown that purchases made before earnings stabilize (presaging a return to growth) are usually disappointing and have higher failure rates since more issues often arise with time. In today’s difficult earnings environment, where growth seems to matter more than price, we must increase our vigilance on earnings sustainability.

Our third addition, Whole Foods Market, was added after its third-quarter price decline amidst adverse publicity and a drop in the historically strong same-store sales growth. While a positive contributor thus far, management continues to deal with increased competition in the healthy foods arena, and it is too early to tell if this investment was likewise too early. However, we do believe it is a strong and flourishing franchise with significant long-term growth potential in the years ahead.

We have said for some time that today's investment environment is a more difficult one to navigate because the impact of low interest rates and liquidity has been quite broad and because there are few obvious areas to avoid the risk. Over a full market cycle, we believe our most important contribution in protecting investor capital will be through paying reasonable prices for companies with sustainable earnings growth, while avoiding those with excessive balance-sheet risk.

Portfolio Review

For taxable accounts, we executed a number of tax-loss harvesting trades during the quarter to reduce net realized gains. Otherwise, no new securities were purchased, nor were any positions completely eliminated.

We added to GlaxoSmithKline and Whole Foods Market. Although increased generic competition has created earnings pressure and declines in GlaxoSmithKline's respiratory business, we believe its diversified business mix offers opportunities for a resumption of organic growth. Additionally as discussed earlier, despite Whole Foods' decline in same-store sales growth, we believe it is a robust and healthy franchise that can achieve significant long-term growth potential in the years ahead through opening additional stores.

We trimmed Microsoft after strong quarterly earnings led to an increase in price. The company is performing well, but we reduced our position because risks remain pertaining to its personal computer dependence, particularly in its Office franchise. We also trimmed our positions in Bed Bath & Beyond and Franklin Resources on weak fundamentals.

Investment Team

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[1]Disclosure

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.***

Gross returns are stated before all fees and transaction costs. 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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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.

									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)
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.

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, 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 September 30, 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).

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S&P 500® Index and Russell Index information is sourced from S&P Capital IQ.

All-Cap Value SMA Composite Performance Description

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										Advisory-Only (UMA) and Managed Assets		
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)	UMA Assets* ($ Millions)	GIPS® Firm Assets ($ Millions)	Total Assets* ($ Millions)
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

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%, 2010-2015: <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.

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