EQUITY INVESTMENT CORPORATION

2016 Year-End Client Commentary
Mid-Cap Value

January 2017

Stocks rose sharply in the fourth quarter in a consensus defying post-election rally. The Russell Midcap® Value Index gained 5.5% in Q4, resulting in a full-year increase of 20%. The S&P 500® Index rose 3.8% for the quarter and 12% for the full year. Value handily outperformed growth last year, and small caps led all domestic cap ranges with the Russell 2000® Value Index returning over 31% in 2016. Our Mid-Cap Value SMA (MCV) composite rose 8.5% for the quarter and 16.6 % for the year (gross of fees). Net of 3% hypothetical maximum annual SMA fees, the Q4 and year-to-date returns for MCV would be 7.7% and 13.2%, respectively. Given the stock market's long run since 2009's lows, as well as our historical pattern of lagging late cycle markets when investment opportunities are more limited, we are pleased with our 2016 MCV results.

We believe the current market continues to feature stretched valuations and relatively poor fundamentals. Since the lows of 2011, stock prices, as measured by the S&P 500, are up roughly 80%, while earnings per share for the companies in the index are fairly flat, resulting in a market that is quite expensive by historical standards. As we have maintained throughout our firm's history, if trends like these continue, we would expect our results to lag the indices but provide good absolute returns. We accept such periods as a key component of proper risk management. We often say that what we do not own in our portfolio is more important than what we do own. It is our experience that there are always areas of the market to be avoided for offering unfavorable pricing relative to the risks one must bear to own them. In the late 1990s, high quality large caps along with most technology stocks were priced at such expensive valuations that they virtually guaranteed sub-par investment returns. In 2004-2006, financials was the area to be avoided. While valuations looked inexpensive on current earnings, they did not sufficiently factor in the effects of poor lending practices and increased leverage. In both periods, we avoided the worst of those risks and underperformed the indices, but outperformed for several years thereafter, once those risks materialized.

Today, we have a market that is expensively priced on earnings that are not growing. To mask this lack of growth, companies are resorting to increased use of pro-forma earnings and financial engineering. While these strategies are not always harmful, they have become so pervasive that we feel there is abuse, with negative repercussions to follow.

In particular, we think small- and mid-cap stocks are high-priced, especially when adjusted for quality considerations. Given this environment, we have increased cash in our typical account to 37%. Notably, cash is purely a residual of our stock selection process and not a strategic allocation. As valuations rise and cause us to sell stocks from portfolios, we will build cash if we aren't able to find suitable replacements. As has happened in previous periods with relatively high cash levels, we have often worked that cash down without large declines in the market. We only need displacements in areas that represent quality and value to us. Our job as your portfolio manager remains to sort through this and future environments, avoid the worst risks on offer, and in doing so construct a portfolio that gives you the best odds of success, no matter what lies ahead.

A final word on the election. We have no useful insight into what will happen on the tax or regulatory front. Certainly some of the proposals being discussed would be favorable for investors, such as a reduction in corporate tax rates and a decrease in regulation. This, along with higher interest rates, likely explains financials' market leading Q4 performance. Some of the other proposals are less clear as to their benefits for investors. Regardless of the eventual outcomes, recent market performance suggests to us that investors may have already priced in much of the perceived future benefits. Bottom line, we don't spend much time trying to predict the future. Instead, as we are fond of saying, we try to protect against it.

Portfolio Review

We bought two new positions during the fourth quarter. We purchased PPG Industries, a large, global business, which manufactures paints and coatings for a wide variety of applications, including automotive and commercial transport, aircraft, marine, rail, and architecture. PPG has broad geographic diversification, earning 60% of revenues outside the US, and is the largest coatings business in the world.

In healthcare, we bought a new position in Smith & Nephew PLC, a London-based medical device company with operations diversified around the world. Its primary focus is on knee and hip implants, other joint-repair devices and technologies, and wound care. Smith & Nephew's stock price declined in 2016, in part due to concerns about Brexit and pound weakness, which allowed for an attractive entry point.

We trimmed our financial sector positions in Raymond James Financial, KeyCorp, and Comerica Inc., all of which have risen sharply post-election on expectations of higher interest rates, lower taxes, and reduced regulation, a rise we believe merits moderating our exposure. We invested some of the proceeds in our position in Franklin Resources. It too rallied post-election, though not nearly as much as many of our other financial holdings, and it remains one of the cheapest stocks in our portfolio.

Finally, we trimmed Encana Corp. based on valuation. It was our top performing stock in 2016, gaining 133.5%.

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

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Pleas see disclosures on the next page.

[1]Disclosures

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. Client net returns are reduced by EIC's management fees and possibly brokerage firm wrap fees, which include trading 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 trading 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.

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Equity Investment Corporation (EIC) is an SEC registered independent investment advisor incorporated in the state of Georgia. Effective October 1, 2016, ownership 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 Return[2]	Hypothetical[2] (3% annual) Net Rate of Return	Benchmark Return of Russell Midcap® Value Index[3]	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion[1] of Annual Returns (St Dev)	Number of Portfolios	Composite Assets ($ Millions)	UMA Assets* ($ Millions)	GIPS® Firm Assets ($ Millions)	Total* ($ Millions)
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	$1,442.4
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	$551.7
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.

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, 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. 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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