EQUITY INVESTMENT CORPORATION

Mid-Cap Value

Second Quarter Commentary

July 2024

Stocks posted mixed results in the second quarter; large-caps gained while mid-caps fell. Year to date, stocks were solid performers though large-caps significantly outperformed mid-caps. Our Mid-Cap Value (MCV) SMA composite lagged the benchmark Russell Midcap® Value Index (RMCV) for the quarter, year to date, and trailing one year, but remained ahead on a gross basis over longer periods shown below. In the second quarter and year to date, our shortfall versus the index was attributable primarily to stock selection in the financial sector.[1]

	For the periods ended June 30, 2024					
	Q2	**YTD**	**1 Year**	**5 Year**	**10 Year**	**SI***
EIC MCV SMA Gross	-4.4%	0.7%	11.3%	10.9%	8.8%	10.4%
EIC MCV SMA Net	-5.1%	-0.8%	8.0%	7.7%	5.6%	7.1%
Russell Midcap Value® Index	-3.4%	4.5%	12.0%	8.5%	7.6%	9.3%

*Table 1 Data Source: Morningstar Direct℠. *Since Inception (SI): January 1, 2004. See footnote 2. Returns for periods greater than one year are annualized. Past performance does not guarantee future results.*

Investment Environment

After broad-based positive returns in the first quarter, growth significantly outpaced value in the second quarter and is now considerably ahead year to date.[3] This style dominance, however, has been driven by an extraordinary concentration of returns. The stocks of the six largest companies alone have accounted for 127% and 60% of the entire Russell 3000® Index's (R3000) gain during the quarter and year to date, respectively.[4] These six include the former "Magnificent 7" minus Tesla — Microsoft, NVIDIA, Apple, Alphabet, Amazon, and Meta Platforms.

We refer to these six companies as the "AI-6" since they are either creating artificial intelligence (AI) models, perceived to benefit from greater implementation of AI, or, in the case of NVIDIA, selling the chips that power AI models. The distant future may be bright for AI-related companies, but aside from NVIDIA, financial success has been elusive. Significant spending on AI initiatives has delivered little commensurate revenues, and some industry leaders are beginning to question the spending and whether it will ever generate sufficient returns.[5] High industry growth is no guarantee of high returns on invested capital. In the long run, fundamentals matter.

The market, however, is not pricing in skepticism. As the left chart below shows, the AI-6 are trading near valuation peaks seen during the COVID pandemic. Ten years ago, these stocks could be purchased for a collective valuation not too different from the overall market. Today, trading at 38.4x earnings, they are inarguably expensive.

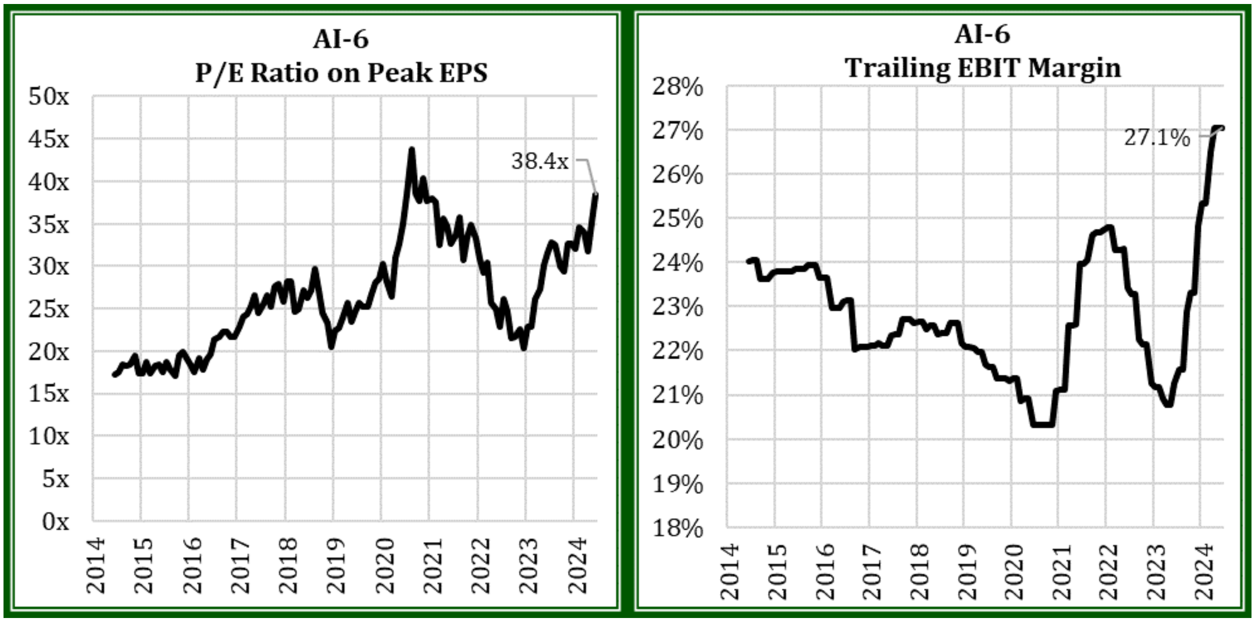

Chart 1 and Chart 2 Data Source: S&P Capital IQ^PRO. See footnote 6. Charts are provided for illustrative purposes only.

Moreover, their valuations are based on peak margins, as shown in the right-hand chart above. Some of the margin increase is due to NVIDIA's exploding profitability, which is directly tied to AI, but uncertain as to its sustainability. However, it is not an AI story for the rest of the group. Instead, a significant amount of profit growth and margin expansion is increasingly driven by accounting changes. Since 2019, Microsoft, Alphabet, Meta, and Amazon have extended the estimated useful lives of their servers and networking equipment from three years up to six years, reducing depreciation expense and boosting earnings by up to 20%, according to our analysis. Given the intensity of hardware usage with AI and rapid technological innovation summoning obsolescence, we doubt that useful lives are increasing.[7] With plans for continued significant near-term increases in capital expenditures around AI and the cloud, this low-quality, accounting-driven earnings boost is likely to escalate, even as free cash flow diverges lower.

The AI-6 now represent 27% of the R3000, while the ten largest companies represent 32.5% of the index, both all-time highs since 1980.[8] NVIDIA alone sports a larger market capitalization than the publicly traded market capitalization of France, England, or Germany and a larger market capitalization than five individual sectors in the R3000 — consumer staples, energy, materials, real estate, and utilities.[9] In essence, the market is betting that the economic value of AI, in NVIDIA alone, is worth more than the profit output of several large, developed countries and entire sectors in the U.S., the largest economy in the world.

As shown in the following chart, setting aside their recent post-COVID outperformance, the ten largest companies in the index have dramatically underperformed the rest of the market over the long run. We do not believe this time will be different, especially given that many of the top ten companies look very expensive and trade at valuations based on all-time high margins. Simply put, we think these stocks are priced for perfection, for a world where substantial benefits of AI accrue only to them.

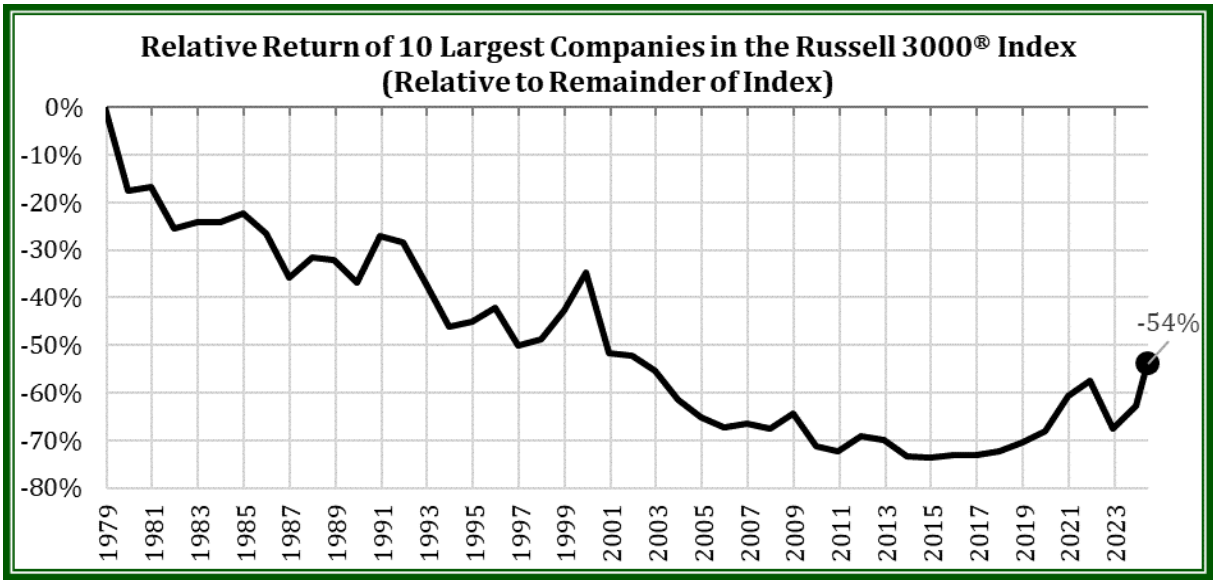

Chart 3 Data Source: S&P Capital IQ^PRO. See footnote 10. Charts are provided for illustrative purposes only.

Turning to the broader market, as seen in the next chart, growth stocks overall look extremely expensive compared to their history, and the spread between growth and value index valuations is at a record high going back to 1990. Based on these observations of historical valuation, growth stocks are priced to deliver negative returns over the next decade, and value should outperform growth meaningfully.[11]

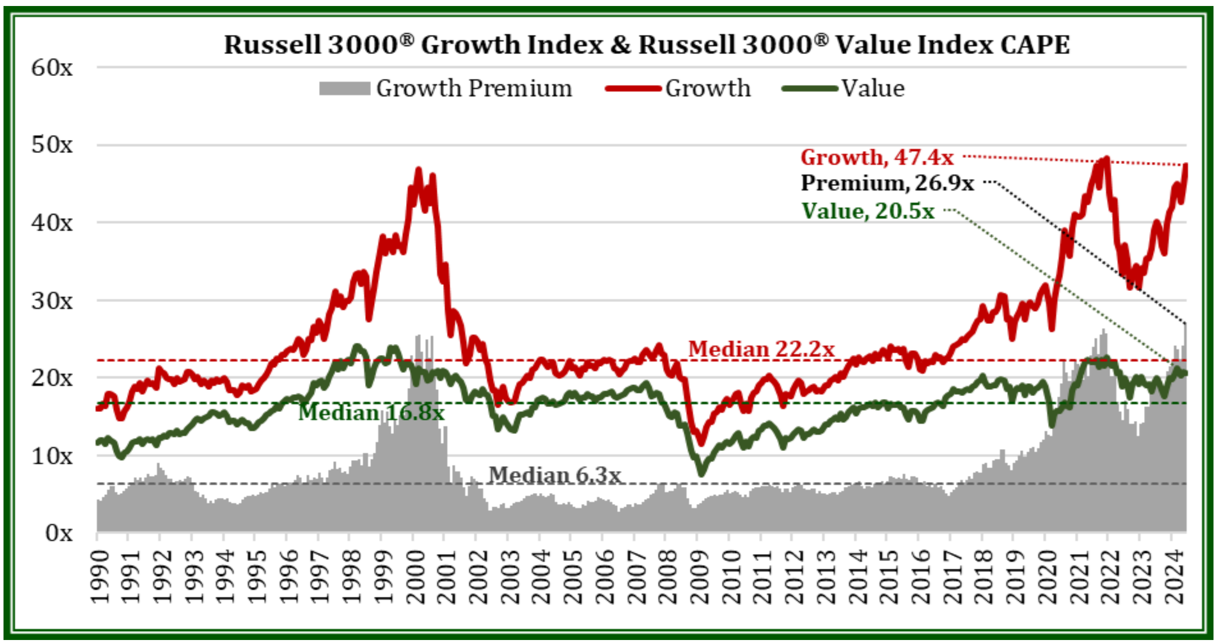

Chart 4 Data Source: S&P Capital IQ^PRO. See footnote 12. Charts are provided for illustrative purposes only.

Our performance is often driven more by what is ***not*** in our portfolios than what is in them. Growth stocks are richly priced and have had a spectacular run, based largely on valuation expansion rather than significant fundamental superiority to value stocks.[13] Little attention is given to valuation, earnings quality, sustainability of growth, or returns on capital employed. In our opinion, growth stocks today are priced with little room for error. For that reason, our portfolios have low exposure to growth stocks and remain heavily tilted towards value stocks, which we believe continue to offer good odds of earning reasonable returns for investors.

Portfolio Review[14]

We bought a new position in Patterson Companies during the quarter. We also added to three existing positions on valuation after stock price weakness: W.P. Carey, Smith & Nephew, and Global Payments. Lastly, we trimmed two holdings based on valuation: Williams Companies and Oshkosh.

We initiated a 2% position in Patterson Companies Inc. (PDCO) Patterson distributes consumable products, equipment, and software to dental and veterinary customers in North America and the U.K. The company's full-service model offers products, services, and consulting, enabling dentists and vets to focus on medicine rather than running their practice. Approximately 60% of earnings are derived from dental operations, with the remaining 40% split between the companion animal (i.e., pets) and production animal businesses. Fundamental performance has been strong over the past few years due to post-pandemic increases in dental visits and pet adoptions. More recently, shares were down approximately 30% from their 52-week high on weakening demand for dental equipment and companion animal products. Despite these potential near-term headwinds, we are attracted to the defensible nature of Patterson's competitive position, as the company holds a sizable and stable share in mature, lower-growth, service-oriented end markets. PDCO has a $2.1 billion market capitalization, a solid balance sheet, and a history of attractive capital returns. Shares are reasonably priced at approximately 10x our estimate of normalized earnings with a 4%+ dividend yield.

Finally, a note on Globe Life (GL), formerly known as Torchmark. We have owned a position in the company for many years, attracted by its basic life and supplemental health insurance lines and a conservative investment portfolio. Shares fell precipitously in April when an anonymous short seller released a report alleging fraud, a toxic sales culture, and potential accounting/underwriting inaccuracies. When the short report first surfaced, we placed GL under review in order to vet the claims. Indeed, we view short selling as a healthy antidote to often pervasive bullishness, so we typically pay close attention to short sellers, though it is not often that we find one of our holdings in their crosshairs. While there were disappointing anecdotes relating to workplace culture and aggressive sales practices, our review did not identify any potential fraud or accounting inaccuracies that would materially alter our assessment of the business's earnings power or valuation. Instead, much of the original short report and other reports that have since built upon that work have been somewhat misleading, and we feel they display a misunderstanding of insurance accounting and regulations.

When GL released earnings in the quarter, the company corroborated our findings. Nevertheless, GL commissioned an independent law firm to review the short report for the benefit of shareholders, with results expected soon. Moreover, the company increased its share buyback authorization, a vote of confidence in the business. Additionally, short interest, one marker of the veracity of the claims, remains low at under 3% of shares outstanding, though a handful of vocal short-focused firms are still active in the name. As a result of these events, the SEC has opened an inquiry, and we continue to monitor the situation closely.

We select stocks on a bottom-up basis, looking for quality characteristics and reasonable valuations. On a weighted average basis, our portfolios trade at approximately 15x trailing and 12x forward earnings, with a return on equity of 11%, long-term earnings growth expectations of nearly 12%, and a dividend yield of 3.3%, with a weighted average credit rating of BBB+.[15] As always, we seek to avoid the worst excesses offered in the market, be they valuation, capital structure, earnings quality, or other, and instead focus on areas with higher odds of earning reasonable returns. Our most meaningful overweights relative to the RMCV continue to be in financials, followed by consumer staples and energy, while our significant underweights are in industrials and information technology. We believe our portfolios are reasonably diversified and should perform well in a range of economic outcomes.

We thank you for your partnership with EIC.

Investment Team

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

Robert Ladyman, CFA   Thomas Knapp, CFA

Disclosures

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[1] Data Source: Morningstar Direct℠. Performance attribution for EIC MCV representative portfolio versus Russell Midcap Value Index for the three months and six months ended June 30, 2024.
Sectors are determined using the Global Industry Classification Standard ("GICS"). GICS® was developed by, and is the exclusive property of, Standard & Poor's Financial Services LLC ("S&P") and MSCI Inc. ("MSCI"). GICS is the trademark of S&P and MSCI. "Global Industry Classification Standard (GICS)" and "GICS Direct" are service marks of S&P and MSCI.
[2] Gross returns for EIC SMA composites are "pure" gross returns, do not reflect the deduction of any expenses, including trading costs, and are presented as supplemental information to the GIPS® Composite Reports, which are considered an integral part of this commentary. Net returns are calculated by reducing gross returns with an assumed maximum annual SMA fee of 3.0%, applied monthly. SMA fees include transaction costs, portfolio management, custody, and other administrative fees. Platform sponsor fees may vary. SMA fee schedules are provided by independent SMA platform sponsors and are available upon request from the individual sponsor. All returns include reinvestment of dividends and interest. Indexes are unmanaged, do not incur management fees, costs, or expenses, and cannot be invested in directly. Performance data is historical. Current performance may be lower or higher than the performance quoted. Individual client portfolio results may vary.

[3] Data Source: S&P Capital IQ^{PRO}. Quarterly and year-to-date total returns of the Russell 3000 Growth Index and Russell 3000 Value Index through June 30, 2024.

[4] Data Source: Morningstar Direct^{SM}. Performance attribution for Russell 3000 Index for the quarter and year to date ended June 30, 2024.

[5] Mims, Christopher. "The AI Revolution Is Already Losing Steam." The Wall Street Journal. June 1, 2024. https://www.wsj.com/tech/ai/the-ai-revolution-is-already-losing-steam-a93478b1.

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Nathan, Allison, ed. "Gen AI: too much spend, too little benefit?" Goldman Sachs & Co. LLC. June 27, 2024. https://www.goldmansachs.com intelligence/pages/gen-ai-too-much-spend-too-little-benefit.html.

[6](Left Chart) Ratio of the index-weighted price to index-weighted prior three-year peak earnings for the AI-6 companies for the month-end periods from June 30, 2014, through June 30, 2024.

(Right Chart) Aggregate trailing 12-month operating profit as a percentage of the aggregate trailing 12-month revenue for the AI-6 companies for the month-end periods from June 30, 2014, through June 30, 2024.

[7] Kinder, Tabby and Hodgson, Camilla and Criddle, Cristina. "Big Tech boosts profits by $10bn with accounting change to server life estimate." Financial Times. February 5, 2024. https://www.ft.com/content/ad2f407c-633a-431e-874b-44df53acc68a.

[8] Data Source: S&P Capital IQ^{PRO}. The weight of the AI-6 and 10 largest companies, respectively, in the Russell 3000 Index calculated monthly from December 31, 1979 through June 30, 2024. Multiple share class listings were combined into one weight for the entire company for the analysis.

[9] LCG Associates, Inc. LCG Market Update, June 2024. https://mailchi.mp/lcgassociates/lcg-monthly-market-update-september-4733002?e=769cc0c5e0.

Data Source: Morningstar Direct^{SM}. Market capitalization of GICS sectors of the Russell 3000 Index as of June 30, 2024.

[10] Return of 10 largest companies in the Russell 3000 Index relative to the remainder of the index from December 31, 1978 through June 30, 2024.

[11] Equity Investment Corporation, The Case for Value versus Growth. June 30, 2024, page 7.

[12] Russell 3000 Growth Index modified CAPE (red line), Russell 3000 Value Index modified CAPE (green line), Russell 3000 Growth Index modified CAPE arithmetic premium over Russell 3000 Value Index modified CAPE (gray area) at each month-end January 31, 1990 to June 30, 2024. Modified CAPE is the ratio of index prices to trailing 10-year index-level EBT calculated on a time-weighted basis. Monthly index level EBT is imputed by dividing the month-end index price by an aggregated price to EBT multiple of index constituents.

[13] Equity Investment Corporation, The Case for Value versus Growth. June 30, 2024, page 4.

[14] References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities. Any specific securities described herein do not represent all securities purchased, sold, or recommended for advisory clients. Actual portfolio holdings may vary for each client, and there is no guarantee that a particular client's account, SMA, or advisory program will hold any, or all, of the securities identified. It should not be assumed that any of the securities or recommendations made will be profitable or will equal the performance of the listed securities.

[15] Data Source: Morningstar Direct℠ as of June 30, 2024. Weighted average trailing twelve-month P/E Ratio, forward P/E Ratio, trailing twelve-month return on equity, and long-term earnings growth rate for EIC MCV representative portfolio, as calculated by Morningstar.

Data Source: APL Systems as of June 30, 2024. Dividend yield for EIC MCV representative portfolio.

Data Source: S&P Capital IQ^{PRO}. Weighted average of S&P credit-quality ratings on underlying securities held in the representative MCV portfolio on June 30, 2024, and not the portfolio itself.

Equity Investment Corporation
Mid-Cap Value SMA Composite Report

As of 6/30/2024	1 Year	5 Year (annualized)	10 Year (annualized)	Since Inception** (annualized)
Gross Rate of Return[1] (Supplemental)	11.3%	10.9%	8.8%	10.4%
Assumed 3% Annual Fee Net Rate of Return[1]	8.0%	7.7%	5.6%	7.1%
Benchmark Return of Russell Midcap® Value Index	12.0%	8.5%	7.6%	9.3%

Table Notes:
[1] Gross returns, presented as supplemental information, are "pure" gross and do not reflect the deduction of any expenses, including trading costs, for SMA accounts. Net returns are calculated by reducing gross returns with an assumed annual SMA fee of 3.0% (0.25%/month).
**Inception Date: January 1, 2004

Disclosures:
Equity Investment Corporation (EIC) is an SEC-registered, independent investment adviser incorporated in the state of Georgia. EIC has been providing investment advisory services to clients since 1986.

From January 1, 1986, through December 31, 1999, Jim Barksdale was primarily responsible for creating and achieving the performance results. Andrew Bruner joined as the second member of EIC's investment team in December 1999. From that point through the present day, portfolios have been managed using a team-based approach. Terry Irrgang became the third member of our investment team in April of 2003. Ian Zabor became the fourth member of our team, joining EIC in July of 2005.

Effective September 30, 2016, we implemented a succession plan to ensure the continuity and stability of our firm. In a transaction that closed on that date, a new investment adviser entity formed by Messrs. Bruner, Irrgang, and Zabor purchased substantially all of the assets and assumed all of the liabilities necessary for EIC's continuous operation from Mr. Barksdale. That new registrant succeeded to all of EIC's business. As planned, Mr. Barksdale's tenure at EIC ended in August of 2019 when his transitional employment agreement expired.

Our investment team has been responsible for achieving the performance results shown in the tables.

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 and inception date is January 1, 2004, and SMA accounts comprise 100% of the composite. 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 the mid-cap value segment of the US equity universe. It is a subset of the Russell Midcap® Index and includes approximately 800 of the Russell 1000® companies with lower price-to-book ratios and lower expected long-term mean earnings growth rates.

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 investments, calculating performance and preparing GIPS Composite Reports are available upon request.

Equity Investment Corporation
Mid-Cap Value SMA Composite Report

									Advisory-Only (UMA) and Managed Assets		
Year Ended Dec - 31	Gross* Rate of Return[1] (Supplemental)	Assumed 3% Annual Fee Net Rate of Return[1]	Benchmark Return of Russell Midcap® Value Index	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion[2] of Annual Returns (St Dev)	Number of Portfolios	Composite Assets ($ Millions)	UMA Assets[3] ($ Millions) (Supplemental)	GIPS® Firm Assets ($ Millions)	Total Assets[3] ($ Millions) (Supplemental)
2024 (through 6/30)	0.7%	-0.8%	4.5%	17.1%	19.3%	0.2%	12	$4.2	$3,104.8	$2,894.1	$5,998.9
2023	12.8%	9.5%	12.7%	17.2%	19.3%	0.5%	12	$4.0	$2,818.0	$2,654.3	$5,472.3
2022	3.0%	0.0%	-12.0%	21.3%	24.4%	0.3%	10	$3.3	$2,392.5	$2,267.8	$4,660.4
2021	30.2%	26.5%	28.3%	18.9%	22.0%	0.7%	12	$3.4	$2,108.2	$2,027.4	$4,135.6
2020	3.5%	0.4%	5.0%	18.6%	22.6%	0.8%	10	$2.2	$1,694.6	$1,607.6	$3,302.2
2019	18.3%	14.9%	27.1%	9.4%	12.8%	0.7%	22	$5.5	$1,942.4	$2,245.1	$4,187.5
2018	-6.4%	-9.2%	-12.3%	8.4%	12.0%	0.7%	21	$4.7	$1,721.0	$2,219.9	$3,940.9
2017	12.6%	9.3%	13.3%	7.5%	10.3%	1.0%	20	$5.4	$2,044.9	$2,790.7	$4,835.6
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

Table Notes:

[1] *Gross returns, presented as supplemental information, are "pure" gross and do not reflect the deduction of any expenses, including trading costs, for SMA accounts. Net returns are calculated by reducing gross returns with an assumed annual SMA fee of 3.0% (0.25%/month).

[2] Dispersion is an asset-weighted standard deviation for the accounts in the composite the entire year (or year-to-date) and is calculated using gross returns. "N/A" represents when dispersion is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

[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.

[4] "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.

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.

Disclosures *(cont.)*:

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, 2024. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to the composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. 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, 1776 Peachtree Street NW, Suite 600S, Atlanta, GA 30309. The firm's list of broad distribution pooled funds is available upon request. 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. In addition to a management fee, some 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 services provided by a program sponsor. The assumed maximum fees for SMA accounts (charged quarterly) are 0.75%. Total fees charged may equal 3% per year (which is assumed to be equal to or higher than the highest actual SMA fee charged by a program sponsor). 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).

London Stock Exchange Group plc ("LSE Group") is the source and owner of FTSE Russell index data. FTSE Russell is a trading name of certain of the LSE Group companies. "Russell®" is a trade mark of the relevant LSE Group companies and is used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication. FTSE Russell Index information is sourced via S&P Capital IQ PRO.