

Equity Investment Corporation
2009 First Quarter All-Cap Value Commentary
April 13, 2009

Q1, 2009 was a tough quarter following a difficult year, with investors facing the worst markets since the 1930s - leaving many disoriented. The Russell 3000 Value index fell 17% versus the S&P 500's decline of 11%, primarily because value-oriented indices have more exposure to financials (banks in the index fell over 40% for the quarter) and less exposure to technology (which generally held up) than the S&P 500. With our exposure to financials nearly identical to the Russell 3000 Value index's (21.5%), our 12.7% (gross) ¹ decline indicates our financials fell less than those comprising the index. This was primarily because the banks we've recently purchased (KeyCorp and SunTrust) fell less than one-fourth as much as the banks in the index. We believe this reflects the care we have been taking with stock selection as we make new commitments in the distressed financial sector.

A key difference in today's market (versus prior years) is that investors are being offered prices that reflect concern about risk – especially among financials and REITs. Our financial exposure has changed markedly in response. Last year, we owned virtually no banks or REITs, and our financial exposure was dominated by quality insurance companies with conservative investment portfolios. Today, our exposure to banks and REITs has risen while we trimmed our insurance holdings. We believe it makes sense to change our exposure – carefully – into these sectors where much fear abounds. “Careful” has less to do with price than balance sheet quality, which is our focus in making these investments. We want to own survivors in areas others are deserting.

Sailing into the wind is consistent with our actions of the past. For example, we increased exposure to technology stocks following the 1997 Asian Currency collapse and after the 2001 Telecom bust. Similarly, we bought small-caps in the late 1990s when they were shunned as investors paid high prices for large companies. We have found there is usually less risk when everyone is focused on it; and more risk when it is being ignored. By moving away from areas where prices reflect optimistic hopes (and risk ignored), and into areas where prices reflect fears about the future, we have significantly reduced portfolio volatility and risk over the years. We believe that is what we are doing today as well.

Our focus remains on quality as much as price. We believe our investments are capable, viable corporations able to withstand today's economic reality. They are *not* like so many firms today (automakers, retailers, homebuilders, casinos, guarantors, and commercial & investment banks) that have become shells of their former selves, and where shareholders' equity has been permanently eradicated by management misjudgments. Such long-term viability is an essential underpinning to value, and it is why we believe our investments offer attractive value regardless of recent price declines. We make no forecast of how quickly economic recovery will come, but we believe the types of companies we invest in will last and recover.

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Jolts like those around us all today have challenged the thinking and beliefs of many. Here are a few: Greenspan's faith in self-interest as a sufficient governor of behavior; insurers' faith that guarantees had no cost; bankers' faith that risk could be measured and controlled enough so leverage could increase; investment bankers' faith in counter-parties and high-leverage deals; consumers' faith in houses as wealth creators to support cash-out loans; bond investors' faith in agency ratings; stock investors' faith in flexible hedge funds or rigid style-boxes. None of these appealed to us. Instead, recent events have only increased our confidence in the investment tenets that have sustained us for 23 years. These can be summarized as:

1. A belief that an economic value to ownership can be determined, but it requires justifiable confidence in long-term and sustainable profitability.
2. Investment decisions should be made within this economic framework but with an allowance for a "margin of safety" based on the level of confidence in the sustainability of earnings.
3. Growth only creates value for owners when the capital invested to achieve the growth earns a return above its cost.
4. Companies unable to grow – whether due to structural or managerial problems – are value traps that should be avoided despite any allure of high dividend yields, low P/E's, or "catalysts".
5. Accounting practices and earnings quality are paramount in determining whether earnings are both real and repeatable, and thus worth capitalizing, or counterfeit so best ignored.
6. The above steps merely improve overall investment odds rather than mandate success, so stubbornness about any investment is unwarranted, and funds need to be diversified broadly enough to let the odds play out.

While many claim stock-selection is no better than a dart-board, ours has been anything but a dart-throw over the 23 years, and our return profile distinctly non-random. No fixed blend of style-box indices on the attached sheet could have produced a.) returns as high as ours (on the left), or b.) risk of loss as low as ours (on the right). By focusing on quality businesses that can survive difficult times, moving toward areas that reflect pessimism, and away from those that reflect high hopes, our experience has been that over long periods, above-market returns are possible, and more importantly, market risk can be reduced.

Achieving such results requires focus on the future rather than the present, which can only come from confidence in the economic substance of the businesses we own. After the 1987 Crash, when fear was palpable, our commentary pointed out that the primary threats to our capital were not stock market fluctuations, but inflation and insolvency.

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We said then: “we feel as buttressed as a business owner can be against [these] long-term threats to real capital growth.”

Today’s monetary and fiscal policy can only lead to inflation, though as occurred post-Vietnam, it may be years before we see it. But our approach is designed to provide some degree of long-term protection against inflation by owning businesses whose return on capital is high. The more imminent threat today is business insolvency, which is why we believe a quality focus is critical.

Understanding Today’s Economy

The most important thing to understand about today’s economic environment is that a tremendous amount of capital has been destroyed via societal and governmental behavior over many years (and not just from the market’s 18-month decline). This resulted from poor allocations of capital by millions of people over many years as they misjudged risk. Exacerbating the scale of the problem was active encouragement by our elected government, including all branches and all parties. The task at hand is replacing this capital, and returning government to a more productive and moderating commercial stance, so more sober investment and growth can occur.

We believe the actions of the Federal Reserve, as well as the recent proposals by the Treasury, are helpful both in shoring up capital and liquidity in the markets, and some of this improvement is already being reflected in credit markets. But economic effects will continue to be felt for some time, and you should expect more unpleasant headlines. Stock prices, however, already reflect such expectations, and it is not necessary for the headlines to turn positive before stock prices can recover.

Portfolio Review

Given the market declines, we are seeing an unusual number of interesting investment opportunities. The cash to invest in these came from trimming our stakes in a number of companies that have held up in price better than the market, such as Annaly Capital Management, Chubb, Hershey, Kimberly Clark, Quest Diagnostics, and Unilever. Also, we sold our position in SLM Corporation due to a change in government priorities. The US government had been making every effort to stabilize the industry with financing. The new budget, however, reflected a change to direct funding of students from the government, with SLM playing a mere administrative role. If implemented, the change will severely impact SLM’s earnings power and value, so we sold despite the low price.

Our primary purchases have been in areas severely depressed, but where our review of the risk (particularly balance sheet risk) leads us to conclude the firms are being priced for a demise we think unlikely. These purchases include SunTrust, a relatively high quality Atlanta-based bank, and Post Properties, a conservatively financed REIT. In addition, we were presented with the rare opportunity to purchase Proctor & Gamble at an attractive price. This is the ideal type of company we like to own, but normally its price is higher than our valuation math allows.

Conference Call

A replay will be posted 24-hours after the call on the Presentations Tab of our website: www.eicatlanta.com/presentations.htm. If you have any technical questions beforehand, please contact Jennifer Raeburn at 404-239-0111 or jraeburn@eicatlanta.com. Also, our marketing contact, John Stewart, may be reached at jstewart@eicatlanta.com.

Thanks for your interest in EIC.

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Returns vs. Risk of Rolling 12-Month Loss Since 1986

| <u>23 1/4-Year Returns (Since Inception)</u> | | <u>Incidence Of Loss Since Inception (23 1/4 Years)</u> | | |
|--|-----------------|---|-----------------------------------|--------------------------------|
| <u>Index</u> | <u>% Return</u> | <u>Index</u> | <u>Number 12-Mo. Loss Periods</u> | <u>% Incidence 12-Mo. Loss</u> |
| EIC All-Cap Value Gross | 10.5% | Russell 2000 Growth | 84 | 31.3% |
| EIC All-Cap Value Net | 9.6% | Russell 2000 Value | 75 | 28.0% |
| Russell Midcap Value | 9.6% | Russell 2000 | 75 | 28.0% |
| Russell Midcap | 9.5% | NASDAQ Composite | 72 | 26.9% |
| Russell 1000 Value | 8.7% | Russell Midcap Growth | 65 | 24.3% |
| Russell 3000 Value | 8.7% | Russell Top 200 Growth | 65 | 24.3% |
| Russell 2000 Value | 8.6% | Size Neutral Index | 65 | 24.3% |
| Size Neutral Index | 8.5% | Russell Midcap Value | 64 | 23.9% |
| S&P 500 | 8.4% | Russell 3000 Value | 64 | 23.9% |
| Russell Top 200 Value | 8.4% | Russell 1000 Value | 63 | 23.5% |
| Russell Midcap Growth | 8.3% | Russell Top 200 Value | 62 | 23.1% |
| Russell 1000 | 8.3% | Russell Top 200 | 62 | 23.1% |
| Russell 3000 | 8.2% | Russell 1000 Growth | 62 | 23.1% |
| Russell Top 200 | 8.1% | Russell 3000 Growth | 62 | 23.1% |
| Russell Top 200 Growth | 7.6% | Russell Midcap | 61 | 22.8% |
| Russell 1000 Growth | 7.5% | Russell 1000 | 61 | 22.8% |
| Russell 3000 Growth | 7.3% | Russell 3000 | 61 | 22.8% |
| NASDAQ Composite | 6.9% | S&P 500 | 60 | 22.4% |
| Russell 2000 | 6.8% | EIC All-Cap Value Net | 39 | 14.6% |
| Russell 2000 Growth | 4.5% | EIC All-Cap Value Gross | 34 | 12.7% |

There have been 268 rolling 12-month periods since inception. EIC returns and incidence of loss are provided as supplemental information to a full disclosure presentation and are presented gross and net of EIC's fees. All results are annualized as of March 31, 2009 and include reinvestment of dividends and interest earned. EIC's returns represent EIC's composite of non-wrap All-Cap Value accounts. Periods greater than 1 year are annualized. Incidence of loss was calculated by linking monthly returns for every 12-month period. Number of occurrences of 12-month losses divided by number of periods equals the incidence of loss. The Size Neutral Index is a blended benchmark index, created by multiplying the percentage of EIC's holdings in large, medium, and small stocks times the returns of the Russell 200 Value, the Russell Midcap Value, and the Russell 2000 Value, respectively. 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 one another.