

EQUITY INVESTMENT CORPORATION

2010 Second Quarter All-Cap Value Commentary

July 7, 2010

Stocks fell during the second quarter, as economic data disappointed investor hopes for a straight-line recovery. Fortunately, as mentioned in our last two quarterly letters, we had consciously avoided investing in areas where recovery expectations seemed optimistic (believing prices were at risk). This is why our decline was so much less than that of the market indices, both for the quarter and year-to-date:

% Return (Ending June 30, 2010) ¹

| Period | EIC All-Cap Value | | R3000V | S&P 500 |
|--------------|-------------------|-------|--------|---------|
| | Gross | Net | | |
| Q2, 2010 | -6.7% | -6.8% | -11.1% | -11.4% |
| Year-to-Date | -1.8% | -2.2% | -4.8% | -6.7% |

The market's current risk-return opportunity set remains largely unchanged from the start of this year. While more economically sensitive companies have seen their earnings rebound sharply from the depressed levels of 2008-9, their prices reflect expectations for an easier and quicker recovery path than we believe likely. Meanwhile, less economically sensitive companies with steadier (but growing) earnings, continue to sell at a discount compared to historical norms due to fears that future growth will be less than in the past. This is particularly true among consumer staples, health care, and technology companies. These sectors account for over half of our portfolio today because they are cheap even after allowing for slower growth rates. As shown by our results this year, this is a much safer place to be invested given today's economic uncertainties.

These uncertainties, regarding potential inflation (vs. deflation) and double-dip recession (vs. sustained recovery), remain valid concerns and are reflected in our investment posture. Rather than *predict* the outcome, we seek to *protect* as best we can via companies with *pricing power in inflationary environments, and staying power in deflationary/contracting environments*.

The above paragraphs about navigating today's environment provide clues to our approach over the past twenty-four and one-half years. First, risk and opportunity are ever-changing rather than static, so it makes sense to navigate the environment flexibly (rather than be wedded to static style-box mandates). Second, investors are not rewarded for taking risk (as theory suggests), but for avoiding those risks not worth taking. Third, risk and potential reward are determinable (rather than a random dart-board), and managed by focusing on price (versus value of long-term ownership), business strength, and quality of earnings. Finally, investors (in contrast to speculators) should try to protect against future outcomes instead of relying on predictions. Our long-term results offer some confirmation of the value to this approach, whether measured against investment objectives of return, wealth, consistency, or safety (below).

Results Since Inception in 1986 ¹

| <i>Investment Objective</i> | <i>Metric</i> | <i>EIC Value All-Cap (Gr.)</i> | <i>EIC Value All-Cap (Net)</i> | <i>Russell 3000 Value</i> | <i>S&P 500</i> |
|-----------------------------|---------------------------------|--------------------------------|--------------------------------|---------------------------|--------------------|
| <i>Return</i> | Annualized Return | 11.5% | 10.7% | 9.7% | 9.2% |
| <i>Wealth</i> | Growth of \$1 Since 1986 | \$14.51 | \$11.95 | \$9.57 | \$8.65 |
| <i>Consistency</i> | Frequency 5-yr. Return >8% | 88% | 86% | 70% | 64% |
| <i>Safety</i> | Frequency of 12-month Loss >10% | 5.7% | 6.4% | 10.7% | 15.0% |

QUALITY FOUNDATION • VALUE DISCIPLINE • GROWTH OBJECTIVE

EIC All-Cap Value is available on most major SMA and/or UMA Platforms

Portfolio Review

We purchased two new securities during the quarter, Baxter International and Exelon Corporation. Baxter is a diversified healthcare business selling products in three divisions: bioscience, medication delivery and renal. It has strong market positions and long-term growth potential, although weakness (short-term, we believe) in its North American blood plasma-based business and a recall of an infusion pump caused the stock to sell off significantly.

Exelon owns the regulated electric utilities for Chicago (ComEd) and Philadelphia (PECO) but the company earns most of its profits from its nuclear generation business. Nuclear electric production benefits from the lowest operating costs in the generation business which leads to higher margins and returns on capital than typical producers.

Meanwhile, we sold Alliant Energy which reached a price that we considered fully-valued.

In Summary

Stocks fell during the quarter due to heightened concerns about the path of the recovery. We declined significantly less because we had consciously avoided areas where prices reflected strong recovery expectations. We believe the road to recovery will be long, as there remain substantial imbalances and economic risks in the world economy. Less economically sensitive, higher-quality companies are available at prices below historical norms, and should provide reasonable long-term return potential while protecting on the downside if the recovery stalls.

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¹Disclosures

Not approved for presentation to wrap program clients. Such presentations should reflect EIC's wrap composite information. EIC results are preliminary and are those of the All-Cap Value Composite, after commissions and before (gross) and after (net) EIC management fees, and are presented as supplemental information to a full GIPS® disclosure presentation.

Growth of \$1 assumes a dollar invested January 1, 1986 grows by monthly reinvesting in EIC's strategy (or the index) through June 30, 2010. Frequency of 5-year return >8% was calculated by linking monthly returns for every rolling 5-year period since inception (1/1/1986), and dividing the number of occurrences of 5-year returns greater than +8% by the total number of rolling 5-year periods (235). Frequency of 12-month loss >10% was calculated by linking monthly returns for every rolling 12-month period since inception (1/1/1986), and dividing the number of occurrences of 12-month returns less than -10% by the total number of rolling 12-month periods (283).

All returns include reinvestment of dividends and interest on cash (if applicable). Index returns exclude fees and commission costs. Results are historical and do not imply future rates of returns or volatility for EIC or the indices, which may be materially different from the past and from one another. Individual account results may differ from those of the composite.

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