EQUITY INVESTMENT CORPORATION

2011 Year-End All-Cap Value Commentary

January 10, 2012

Although volatile, 2011 ended up being a good year, with our All-Cap Value Composite rising 7.5% (gross), versus 2.1% for the S&P 500 and -0.1% for the Russell 3000 Value (R3000V) index. Over 100% of our out-performance for the year came during the market's decline (May-September). In the fourth quarter markets rebounded, and our accounts rose 10.5% versus 11.8% and 13.3%, respectively, for the S&P 500 and R3000V [1]. The year showcased, in a short timeframe, the longer-term pattern of returns we have seen over the past 26 years. This pattern is the natural result of investing with a mindset focused on capital protection and minimizing risk, rather than tracking volatile stock indices.

From January to April, low-quality stocks led a market rally as investors expected the economic recovery to continue. Like our experience in 1993 and 2003, we did not keep pace with this market due to our minimal exposure to low-quality companies. Commenting on our concerns, our Q1 Commentary stated: *"Today's environment… is one where the earnings and apparent growth being capitalized in some sectors leading the market … may be unsustainable by-products of an artificial environment created by government fiscal and monetary policies, rather than reflecting a self-sustaining reality."*

More quickly than we imagined, the markets reversed in May as weak economic data and the sovereign debt crisis in Europe raised fears about the recovery's sustainability. We have a long history of out-performing in down markets. For example, we declined less than the S&P 500 and R3000V in 100% and 90% of the periods, respectively, when they have suffered a double-digit decline (over any rolling 12-month period since 1986). As the S&P 500 and R3000V indices fell 16.3% and 19.3% from their April 30 highs (through September 30th), our accounts declined only 8.7% [1].

By declining less in down-markets, we have historically re-gained our previous high-water mark more quickly than the indices, as shown below versus market peaks in 1999, 2007, and last April.

	% Return (Not Annualized; Ending 12/31/11) [1]			
	EIC All-Cap Value			
Since Peak of:	**Gross**	**Net**	**R3000V**	**S&P 500**
4/30/2011	**0.9%**	**0.6%**	-8.5%	-6.4%
5/31/2007	**15.3%**	**11.7%**	-19.2%	-9.2%
12/31/1999	**187.0%**	**162.4%**	54.2%	6.8%

In summary, while we have high odds of underperforming certain types of markets (as seen in Q1), our tendency of losing less in down-markets (seen in Q2-Q3) meant our return to positive territory was reached more quickly than the indices (in Q4).

Reducing losses has various implementation components (price discipline, a strong valuation methodology, value trap avoidance, and earnings-quality due diligence). *But a critical precursor is a mindset that stresses downside protection instead of following the crowd by attempting to track market indices. For us, this means maintaining the flexibility to invest where value leads, not adhering to a narrow investment style-box.*

***Today's* Economic Backdrop & Investment Opportunity Set**

We do not believe any investor's economic crystal ball is sufficiently reliable to form the basis of a consistent and repeatable investment approach. That is why we stress protection against what may happen rather than attempting predictions of what will happen. Still, it is necessary to have some awareness of the economic environment in which one is operating in order to navigate risks.

The principal cause of today's economic situation is the excessive credit expansion in the decades before, which resulted in over-confidence and broad misappraisals of risk (by borrowers, lenders, and investors), major global imbalances (surpluses/deficits), and inattentiveness to a decline in the structural health of western economies (whether measured in consumer balance sheets, median incomes and distribution, quality of infrastructure, manufacturing strength and efficiency, educational quality, or individual self-discipline). When borrower solvency reached the breaking point, the solvency of lenders (and governments trying to save them) likewise became compromised.

From an investment standpoint, the risks were most concentrated in banks (particularly U.S. money-center and European banks), investment banking firms, and certain insurers. Protection against these risks meant minimizing exposure to financials, especially the more rapidly expanding ones, which we began as early as 2004. While some progress has been made over the past 5 years, and while today these risks are well-known, they remain serious and carry significant potential downside implications (particularly in Europe). That is why we continue to invest opportunistically and carefully in financials, avoiding the institutions we believe face potentially catastrophic risks. However, fear often creates opportunity, and we made selective purchases of Wells Fargo, US Bancorp, PNC Financial and Charles Schwab & Co. We believe these are higher-quality institutions with less (and more understandable) risks than their counterparts. As a result, while we remain underweight versus the indices, our exposure to the financial sector rose to 20.2% in the fourth quarter from 13.7% a year-ago.

T*he exit of investors from stocks (particularly large-cap stocks) due to economic fears continues to create a good investment opportunity set, particularly versus the poor alternatives in fixed-income investments*. That is why we are fully invested and our exposure to mega-cap companies is the highest in our history (about 87% of the portfolio holdings).

We expect the path to full recovery to be both long and erratic. Capitalism requires capital (assets in excess of liabilities) to fuel growth. Success in getting capitalism's engine restarted has been frustrated by the weakened solvency chain (individual - lender - sovereign), the declines in structural economic health masked during the credit expansion, the reduction in economic multiplier as the asset side of the capital's ledger sheet is concentrated into relatively few hands with surpluses but lower propensity to spend (surplus countries, individuals, corporations exploiting tax-havens, etc.), and the loss of capital diverted into costly wars. As a result, recovery is slower and more difficult than normal, so we have been cautious in our assumptions of growth in making individual company valuations.

We believe the best protection against this environment is the ownership of high quality businesses that can sustain growth and produce surplus cash for owners, purchased at reasonable prices. Fortunately, the various economic fears so prevalent today are providing a better-than-normal opportunity set for finding such companies.

Portfolio Review

The health care sector offers a number of opportunities today. Quest Diagnostics was sold due to its increased price and our concerns about its balance sheet (leverage). Meanwhile, C. R. Bard was re-purchased after its price declined about 20% from our sale earlier this year. C.R. Bard is a high quality surgical and healthcare products business specializing in catheters, stents and related products for a diverse group of applications.

Weak gas prices resulted in some portfolio changes. Exelon and Encana, which had benefitted from price hedges and the market's focus on yield, were sold. Meanwhile, expectations for decreased gas drilling from lower gas prices caused Nabors Industries' price to fall over 50% and we repurchased a position. The price rebounded quickly and (unusual for us) the stock was re-sold in November. This created a slightly higher than normal ratio of short-term gains in 2011 for taxable accounts, despite efforts to harvest losses throughout the year.

We also added to positions in Charles Schwab and Dr. Pepper Snapple, and in taxable accounts, completed various tax-oriented trades to harvest losses.

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Please see disclosures on reverse side

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QUALITY FOUNDATION • VALUE DISCIPLINE • GROWTH OBJECTIVE

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

[1] **Disclosure**

For Financial Professionals Only ***Not approved for presentation to wrap program clients. Such presentations should reflect EIC's wrap composite information***. *EIC's results are those of our All-Cap Value Composite, before and after EIC management fees, and after commissions. Returns are presented in conjunction with our full disclosure presentation, which is considered an integral part of this report. For Q4, and 2011 EIC results after fees were 10.3% and 6.8%, respectively. From the April 30, 2011 peak through September 30, 2011, EIC results after fees were -8.8%. All returns include reinvestment of dividends and interest. 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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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, internally administered non-wrap All-Cap Value Equity accounts. The strategy employs a flexible framework (not constrained by any cap size limitations) 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. All returns are presented net of foreign withholding taxes on dividends, interest income, and capital gains. The composite creation date is January 1, 1986. All accounts included in the composite are managed according to similar investment guidelines. On January 1, 2003 the benchmark (which excludes an advisory fee) was changed retroactively from the S&P 500 to the Russell 3000 Value Index because it is more representative of the composite. The Russell 3000 Value Index measures the performance of the broad value segment of the US equity universe. It is the portion of the Russell 3000 companies with lower price-to-book ratios and lower forecasted growth rates. The Russell 3000 consists of the largest 3000 US companies and represents 98% of the investable US equity market. Performance results earned on behalf of EIC's clients are calculated gross of investment advisory fees, and net returns reflect EIC's advisory fees.

Year Ended Dec - 31	Gross Rate of Return	Net Rate of Return	Benchmark Return of Russell 3000 Value Index	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion[1] of Annual Returns (St Dev)	Number of Portfolios	Composite Assets ($ mm)	Composite Assets as % of Total Product Assets[2]	Non-Fee Paying Portfolios (%)	Total Firm Assets ($ Millions)
2011	7.5%	6.8%	-0.1%	16.4%	21.0%	0.5%	187	$182.7	22%	1%	$1,127.9
2010	18.0%	17.2%	16.2%	18.8%	23.5%	0.5%	158	$142.6	22%	1%	$837.0
2009	25.9%	25.0%	19.8%	17.3%	21.3%	1.2%	143	$112.5	26%	<1%	$541.2
2008	-23.4%	-23.9%	-36.3%	11.8%	15.5%	0.8%	148	$87.3	26%	<1%	$362.6
2007	3.3%	2.6%	-1.0%	7.1%	8.3%	0.8%	138	$110.8	27%	<1%	$448.1
2006	16.6%	15.7%	22.3%	6.2%	7.0%	0.5%	116	$101.0	26%	0%	$487.2
2005	2.8%	1.9%	6.9%	8.8%	9.7%	0.7%	92	$72.3	23%	0%	$463.6
2004	13.9%	12.9%	16.9%	11.5%	14.8%	0.4%	61	$51.3	23%	0%	$388.1
2003	25.2%	24.3%	31.1%	13.5%	16.0%	0.6%	39	$97.9	50%	0%	$231.0
2002	-3.6%	-4.4%	-15.2%	15.9%	16.6%	1.5%	37	$58.7	72%	0%	$110.7
2001	16.9%	15.8%	-4.3%	15.6%	14.1%	1.7%	23	$51.7	85%	0%	$82.2
2000	18.0%	17.3%	8.0%	17.9%	16.8%	1.1%	28	$43.8	75%	1%	$62.3
1999	0.7%	0.0%	6.6%	15.6%	15.9%	0.9%	36	$38.2	73%	1%	$64.1
1998	15.8%	14.9%	13.5%	14.2%	14.9%	0.7%	27	$24.4	87%	0%	$35.2
1997	30.5%	29.5%	34.8%	8.8%	9.5%	0.7%	24	$21.0	73%	0%	$38.8
1996	9.0%	8.1%	21.6%	7.7%	9.2%	0.9%	29	$28.3	57%	0%	$69.7
1995	19.0%[3]	18.1%	37.0%	6.3%	8.3%	0.6%	33	$30.1	43%	0%	$93.4
1994	0.2%[3]	-0.6%	-1.9%	5.7%	8.2%	0.8%	65	$32.7	46%	0%	$92.6
1993	11.3%[3]	10.4%	18.7%	8.0%	9.5%	0.7%	72	$44.0	66%	0%	$84.5
1992	10.6%[3]	9.8%	14.9%	12.5%	13.7%	0.9%	69	$53.3	70%	0%	$84.1
1991	37.0%[3]	36.0%	25.4%	13.3%	14.5%	1.3%	58	$35.6	73%	0%	$48.9
1990	-8.0%[3]	-8.7%	-8.8%	13.2%	13.5%	0.7%	59	$25.8	85%	0%	$30.4
1989	20.8%[3]	20.0%	24.2%	18.0%	17.6%	1.6%	51	$21.4	77%	0%	$27.8
1988	27.4%	26.2%	23.6%	19.9%	18.9%	1.7%	14	$6.0	75%	2%	$8.0
1987	10.6%	9.5%	-0.1%	N/A	N/A	N/A	5	$0.5	78%	36%	$0.6
1986	25.0%	23.8%	18.8%	N/A	N/A	N/A	2	$0.2	100%	100%	$0.2

See next page for Table Notes

Table Notes:

[1] Dispersion is an asset-weighted standard deviation for the accounts in the composite for the entire year (or year-to-date).
N/A – Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

[2]The All-Cap Value composite represents less than 100% of the product assets because EIC manages various wrap accounts that are included in separate composites pursuant to GIPS® guidelines, and are available upon request.

[3]Results for the period January 1, 1989 through July 1, 1995 include wrap accounts and are shown as supplemental information. For this period, wrap accounts represent on average 24% of the composite assets. Gross returns for wrap accounts are stated gross of all fees and brokerage firm wrap fees; net returns have been reduced by all fees and brokerage firm wrap fees, which include trading costs, portfolio management, custody, and other administrative fees.

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.

EIC's after-fee performance through 1988 is based on typical management fees of 1% per year. Beginning in 1989, performance is based on actual fees. Prior to 2003, EIC charged clients a fixed percentage of the assets managed, which ranged from .50% to 1.5%. Some clients chose an incentive fee arrangement and were charged a base fee (ranging from .50% to 1.00%) plus an incentive fee which was triggered by the gross of fees performance of the account versus a Benchmark index. 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 are presented gross and net of management fees and include the reinvestment of all income. 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, 2011. 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 All-Cap Value composite has been examined for the periods January 1, 1986 through September 30, 2011. The verification and performance examination 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. Annual fees (charged quarterly) are as follows:
0.75% on the first $10 million, 0.60% on the next $15 million, and 0.40% on the remainder of the assets. Actual investment advisory fees incurred by clients may vary.