

# EQUITY INVESTMENT CORPORATION

## *2018 Fourth Quarter Commentary All-Cap Value & Large-Cap Value January 2019*

Stocks fell for the fourth quarter and the full-year 2018. For the quarter, the Russell 3000<sup>®</sup> Value Index (R3000V) declined 12.2%, the Russell 1000<sup>®</sup> Value Index (R1000V) dropped 11.7% and the S&P 500<sup>®</sup> Index (S&P 500) fell 13.5%. Our All-Cap Value (ACV) SMA and Large-Cap Value (LCV) SMA composites each decreased 10.2% (gross\*). For the full year, the R3000V fell 8.6%, and the R1000V declined 8.3%, while the more growth-oriented S&P 500 dipped 4.4%. Our ACV and LCV SMA composites decreased 6.4% (gross\*). Net of a 3% hypothetical maximum annual SMA fee, results for both ACV and LCV would be -10.9% for the quarter and -9.2% for the year.<sup>1</sup>

Value beat growth for the first time in eight quarters. Though the Russell 3000<sup>®</sup> Growth Index tumbled 16.3% during the quarter, that was not enough for value to overcome growth's lead for the first nine months of the year. Accordingly, the Russell 3000 Growth Index declined 2.1% for the full year, surpassing its value counterpart (R3000V) by 6.5%.

In terms of size, large-cap outperformed mid-cap, which, in turn, outperformed small for both the quarter and the full year. More specifically, the Russell Top 200<sup>®</sup> Index fell 13.2% in the fourth quarter, and the Russell Midcap<sup>®</sup> Index decreased 15.4%. Meanwhile, the Russell 2000<sup>®</sup> Index dropped 20.2%, and the Russell Microcap<sup>®</sup> Index plunged 22.1%. For the year, the Russell Top 200 Index decreased 3.1%, and the Russell Midcap Index fell 9.1%. In the small-cap space, the Russell 2000 Index dropped 11.0%, while the Russell Microcap Index lost 13.1%.

### **Investment Environment**

There were few places to hide last year. Aside from cash and some lower duration fixed income, not much worked for investors in the fourth quarter and full-year 2018. Domestic and international stocks declined, bond spreads widened significantly in both investment grade and high yield, and commodities broadly fell. Long-duration bonds and gold rose in the fourth quarter, but were down for the full year. In terms of breadth of the declines, 2018 was worse for investors than 2008. While the depth of the decreases in equities, commodities, and high yield was larger in 2008, investors were still able to make money in most categories of bonds and gold. Not so in 2018.<sup>2</sup>

Only one sector in the Russell 3000 Value Index – utilities – posted a positive return for the quarter, gaining 0.8%. The next two best performing sectors were consumer staples, down 4.4% and communication services, down 6.1%. We were modestly overweight these three sectors in aggregate, and maintain similar weightings to our historical averages. While these sectors have some defensive characteristics in terms of earnings stability and our holdings are justifiable on valuation, we don't view the group as worthy of a significant overweight at this time. As noted in

the recent past, we think many constituents of these sectors have too much leverage, profitability or growth concerns, or trade at valuations that we view as unjustifiable.

Likewise, few stocks fared well. In fact, 93% of the names in the Russell 3000 Index fell 10% or more from their 2018 highs, 75% were down more than 20%, and 52% tumbled at least 30%.

Given this backdrop, it's not surprising that most of our value added relative to the Russell 3000 Value Index was attributable to our position in cash and short-term investments, though our sector over/under weights also contributed to relative performance. Notably, both cash and our sector allocations are a residual of our stock selection process.<sup>3</sup>

2018 saw the return of market volatility, especially in the fourth quarter. At year-end 2017, the US equity markets received the gift of corporate tax reform, virtually ensuring strong 2018 earnings growth. Meanwhile, inflation remained tame, and unemployment hit historical lows. It was a Goldilocks scenario. In this context, the increase in volatility seemed to come out of left field.

Although volatility appeared elevated, it was actually closer to its historical average than to being an outlier. We believe 2018 volatility seemed much higher to many because of the contrast with preceding years. For instance, 2017 saw the lowest stock-market volatility in over half a century and marked the ninth consecutive year of positive S&P 500 performance, tying the previous record from 1991-1999.<sup>2</sup> 2017 was also the first time in EIC's 32-year history that the S&P 500 did not register a single down month during the year.

As we entered 2018, risks were mounting and bore similarities to previous periods of excess. Trading at 25x trailing GAAP and 23x Pro-Forma earnings, S&P 500 stocks were richly priced compared to historical levels.<sup>4</sup> Complicating matters, earnings were driven by historically high margins. Moreover, there was, in our view, significant complacency in corporate credit, with elevated leverage levels and lax underwriting standards. Short-term interest rates were rising, giving investors a safer and meaningful positive-return alternative to stocks for the first time in nearly a decade. And nine years into an economic expansion, the yield curve was beginning to flatten, signaling slower growth or worse ahead.

Today, corporate leverage and margins remain at historically high levels. The yield curve has flattened further. China's economic conditions softened during the year, along with US housing and some areas of technology. Finally, we have been living with trade-war rhetoric for much of the year. Investor's awareness of these risks is now higher than it was a year ago, and assets have repriced somewhat, particularly in the fourth quarter.

As a result of stock-price declines and earnings progress, valuations have improved. The S&P 500 began 2019 trading at 19x trailing GAAP and 17x Pro-Forma Earnings, still not cheap but a step in the right direction.<sup>5</sup> Moreover, despite the Q4 outperformance of value stocks, they remain inexpensive by historical standards relative to growth stocks. We believe starting valuation is an important determinant of forward returns. So while risks remain, we are pleased that prospects continue to broaden, giving us better opportunities to invest with expectations of reasonable returns.

## **Portfolio Review**<sup>6</sup>

During the quarter, we purchased a new position in the Hartford Financial Services Group, a property and casualty insurance company focused primarily on commercial insurance. Hartford also has an employee benefits business offering group life and group disability coverages, as well as a mutual fund business. In 2018, Hartford sold the remainder of its individual life and variable annuity business which has been a drag on company returns and a source of earnings volatility. Hartford's remaining businesses are of good quality and the sale should allow the better underlying fundamentals of these to prevail. The company is well capitalized and conservatively invested, and we believe the price we paid for the stock represents an attractive entry point that offers a degree of safety with upside potential.

Also during the quarter, we sold our position in Annaly Capital Management, while adding to positions in PNC, SunTrust and US Bancorp. While bank stocks declined reflecting, in part, increasing concerns about credit quality, Annaly's stock remained stable despite the company having shifted its portfolio in recent years to take on more credit risk. Thus, our trades in Annaly and the banks took advantage of better relative value and, we believe, improved our risk profile.

In addition to selling Annaly, we trimmed positions in Cisco Systems and Proctor & Gamble during the quarter at prices near our assessment of full value.

As the market fell in the fourth quarter, especially in December, we added to several positions. In addition to the three banks noted above, we added to AmerisourceBergen, Facebook, Johnson & Johnson, Mohawk and UPS, lowering cash in representative accounts from approximately 15-16% at the beginning of the quarter to approximately 12-13% at December 31, consistent with our view that investment opportunities are improving.

As we enter 2019, we continue to be concerned about corporate leverage and the ability of companies to maintain historically high margins, given the expectations of slower growth ahead. Moreover, we think market volatility will likely persist this year, as investors digest the many forces impacting the economy, interest rates, and corporate profits. Nonetheless, our investment objective remains the same: constructing a portfolio of stocks that offers reasonable odds of investment success across a range of potential market outcomes.

Thank you for your continued partnership with EIC. We are grateful for the trust our clients have placed in us to manage a portion of their assets.

### **Investment Team**

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Please see disclosures on the next page.

**VALUE DISCIPLINE • QUALITY FOUNDATION • GROWTH OBJECTIVE**

## Disclosures

<sup>1</sup> EIC's ACV and LCV results are those of our All-Cap Value SMA and Large-Cap Value SMA composites gross\* (before) and net (after) assumed maximum annual SMA fees of 3% (0.25% per month). SMA fees include transaction costs, portfolio management, custody, and other administrative fees. \*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 full disclosure presentations which are 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. Past performance is not indicative of future results. **Individual account results may differ from those of a composite. Client net returns are reduced by EIC's management fees and may possibly be reduced by brokerage firm wrap fees, which include transaction costs, portfolio management, custody, and other administrative fees.**

<sup>2</sup> Bilello, Charlie, "2018: The Year in Charts." Pension Partners, 03 January 2019. <https://pensionpartners.com/2018-the-year-in-charts/>. 15 January 2019.

<sup>3</sup> Data Source: Morningstar Direct<sup>SM</sup>

<sup>4</sup> Data Source: S&P Capital IQ. Trailing four quarters GAAP and Pro-Forma earnings as of September 30, 2017; Prices as of December 31, 2017.

<sup>5</sup> Data Source: S&P Capital IQ. Trailing four quarters GAAP and Pro-Forma earnings estimates as of September 30, 2018; Prices as of December 31, 2018.

<sup>6</sup> Portfolio data is from representative All-Cap Value and Large-Cap Value accounts. Actual portfolio holdings may vary for each client, and there is no guarantee that a particular client's account, "wrap," or advisory program will hold any, or all, of the securities identified. The securities identified and described above do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable.

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S&P 500 and Russell indices are sourced from S&P Capital IQ.

# All-Cap Value SMA Composite Performance Description

Equity Investment Corporation (EIC) is an SEC registered independent investment advisor incorporated in the state of Georgia. EIC was founded in 1986. Effective September 30, 2016, substantially all of the assets and liabilities of the firm were acquired by 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, and the firm continues to operate as EIC. Performance numbers (beginning July 1, 1995) are the value-weighted, time-weighted, total return composite results of fully discretionary All-Cap Value equity wrap fee (SMA) 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. Prior to January 1, 2013, the composite was called the All-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. Prior to July 1, 1995, the returns are that of the All-Cap Value composite. Results for the period January 1, 1989, through July 1, 1995, include both SMA and non-SMA accounts. During this period, SMA accounts represent on average 24% of the composite. Since July 1, 1995, SMA accounts comprise 100% of the composite. The composite creation date is July 1, 1995. 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 Index to the Russell 3000® Value Index, which is more representative of the composite. Performance includes reinvestment of dividends, and EIC's returns also include interest earned on cash. The Russell 3000® Value Index measures the performance of the largest 3000 US companies in the value segment of the US equity universe. The Russell 3000® Value Index is based on the Russell 3000® Index, a market-capitalization weighted equity index representing approximately 98% of the investable US equity market.

											<b>Advisory-Only (UMA) and Managed Assets</b>	
Year Ended Dec - 31	Gross* Rate of Return <sup>1</sup> (Supplemental)	Hypothetical 3% Annual Net Rate of Return <sup>1</sup>	Benchmark Return of Russell 3000® Value Index	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion <sup>2</sup> of Annual Returns (St Dev)	Number of Portfolios <sup>3</sup>	Composite Assets (\$ Millions)	UMA Assets (\$ Millions) (Supplemental)	GIPS® Firm Assets (\$ Millions)	Total Assets (\$ Millions) (Supplemental)	
2018	-6.4%	-9.2%	-8.6%	9.3%	11.1%	0.3%	2341	\$1,064.9	\$1,721.0	\$2,219.9	\$3,940.9	
2017	15.6%	12.2%	13.2%	8.0%	10.3%	0.4%	2486	\$1,264.8	\$2,044.9	\$2,790.7	\$4,835.6	
2016	12.2%	8.9%	18.4%	8.6%	11.0%	0.5%	2893	\$1,406.1	\$2,044.5	\$2,994.4	\$5,038.9	
2015	-4.4%	-7.2%	-4.1%	8.9%	10.7%	0.5%	4727	\$1,964.8	\$1,590.0	\$3,658.9	\$5,248.9	
2014	14.9%	11.5%	12.7%	8.1%	9.4%	0.5%	5272	\$2,259.6	\$1,657.7	\$3,862.6	\$5,520.3	
2013	24.7%	21.1%	32.7%	9.2%	12.9%	0.6%	4290	\$1,703.6	\$1,009.2	\$3,286.3	\$4,295.5	
2012	10.0%	6.7%	17.6%	11.5%	15.8%	0.4%	2742	\$1,016.1	\$665.6	\$2,301.1	\$2,966.7	
2011	7.4%	4.2%	-0.1%	16.3%	21.0%	0.6%	1398	\$556.0	\$314.5	\$1,127.9	\$1,442.5	
2010	18.2%	14.7%	16.2%	18.7%	23.5%	0.5%	937	\$432.6	\$77.9	\$836.9	\$914.8	
2009	26.9%	23.2%	19.8%	17.3%	21.3%	1.3%	743	\$282.7	\$10.5	\$541.2	\$551.8	
2008	-22.9%	-25.2%	-36.3%	11.7%	15.5%	1.0%	946	\$220.2	\$0.0	\$362.6	\$362.6	
2007	3.3%	0.3%	-1.0%	7.0%	8.3%	0.8%	935	\$283.5	\$0.0	\$448.1	\$448.1	
2006	16.6%	13.1%	22.3%	6.2%	7.0%	0.8%	758	\$252.7	\$0.0	\$487.2	\$487.2	
2005	2.8%	-0.3%	6.9%	8.8%	9.7%	0.7%	675	\$195.5	\$0.0	\$463.6	\$463.6	
2004	13.9%	10.6%	16.9%	11.4%	14.8%	0.8%	531	\$137.4	\$0.0	\$388.1	\$388.1	
2003	25.2%	21.6%	31.1%	13.6%	16.0%	0.8%	289	\$70.0	\$0.0	\$231.0	\$231.0	
2002	-4.1%	-6.9%	-15.2%	15.9%	16.6%	1.5%	59	\$14.6	\$0.0	\$110.7	\$110.7	
2001	16.9%	13.5%	-4.3%	15.7%	14.1%	0.8%	13	\$5.4	\$0.0	\$82.2	\$82.2	
2000	18.6%	15.2%	8.0%	18.0%	16.8%	0.8%	16	\$6.5	\$0.0	\$62.3	\$62.3	
1999	2.1%	-0.9%	6.6%	15.7%	15.9%	1.0%	27	\$13.0	\$0.0	\$64.1	\$64.1	
1998	16.2%	12.8%	13.5%	14.5%	14.9%	0.9%	11	\$2.8	\$0.0	\$35.2	\$35.2	
1997	30.1%	26.4%	34.8%	8.8%	9.5%	0.8%	12	\$4.9	\$0.0	\$38.8	\$38.8	
1996	8.0%	4.8%	21.6%	7.7%	9.2%	0.6%	19	\$16.6	\$0.0	\$69.7	\$69.7	
1995	19.7%	16.2%	37.0%	6.2%	8.3%	0.6%	42	\$23.0	\$0.0	\$93.4	\$93.4	
1994	0.2%	-2.8%	-1.9%	5.7%	8.2%	0.8%	65	\$32.7	\$0.0	\$92.6	\$92.6	
1993	11.3%	8.0%	18.7%	8.0%	9.5%	0.7%	72	\$44.0	\$0.0	\$84.5	\$84.5	
1992	10.6%	7.4%	14.9%	12.5%	13.7%	0.9%	69	\$53.3	\$0.0	\$84.1	\$84.1	
1991	37.0%	33.0%	25.4%	13.3%	14.5%	1.3%	58	\$35.6	\$0.0	\$48.9	\$48.9	
1990	-8.0%	-10.7%	-8.8%	13.2%	13.5%	0.7%	59	\$25.8	\$0.0	\$30.4	\$30.4	
1989	20.8%	17.3%	24.2%	18.0%	17.6%	1.6%	51	\$21.4	\$0.0	\$27.8	\$27.8	
1988	27.4%	23.7%	23.6%	19.9%	18.9%	1.7%	14	\$6.0	\$0.0	\$8.0	\$8.0	
1987	10.6%	7.4%	-0.1%	N/A	N/A	N/A	5	\$0.5	\$0.0	\$0.6	\$0.6	
1986	25.0%	21.3%	18.8%	N/A	N/A	N/A	2	\$0.2	\$0.0	\$0.2	\$0.2	

## Table Notes:

<sup>1</sup> \*Gross returns, presented as supplemental information, are “pure” gross and do not reflect the deduction of any expenses, including trading costs, for SMA accounts. “Pure” gross returns from 10/1/02 through 12/31/06, reflect the deduction of trading costs but not any additional expenses. For the period 1/1/89 through 7/1/95, SMA accounts represent on average 24% of the composite assets. Prior to 7/1/95 and for the periods 10/1/02 through 12/31/06, the returns are that of EIC’s All-Cap Value composite. For all other periods, SMA accounts represent 100% of the composite assets. Net returns are calculated by reducing gross returns with an annual SMA fee of 3.0%, applied monthly.

<sup>2</sup> Dispersion is an asset-weighted standard deviation for the accounts in the composite for the entire year (or year-to-date). “N/A” represents when dispersion is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. For 1986 through 1995 dispersion represents EIC’s All-Cap Value composite, which contains both SMA and non-SMA accounts. For 1996 through 2005, dispersion represents EIC’s internally administered SMA accounts.

<sup>3</sup> Number of Portfolios/Composite Assets significantly decreased in 2016 due to transitioning of a major SMA program to a model based (UMA) program during Q416.

<sup>4</sup> “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 Notes: The three year annualized standard deviation measures variability of the composite (gross of fees) and the benchmark returns over the preceding 36 month period.

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 include the reinvestment of all income. There were non fee-paying accounts during the following years: 1986: 100%; 1987: 36%; 1988: 2%; 1999-2000: 1%; 2010 – 2017: <1%. There are no non fee-paying accounts during any other period. 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.

EIC claims compliance with the Global Investment Performance Standards (GIPS®) since inception 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, 2018. 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, 1776 Peachtree Street NW, Suite 600S, Atlanta, GA 30309. 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. 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](http://www.adviserinfo.sec.gov)).

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# Large-Cap Value SMA Composite Performance Description

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<b>Advisory-Only (UMA) and Managed Assets</b>											
Year Ended Dec - 31	Gross* Rate of Return <sup>1</sup> (Supplemental)	Hypothetical 3% annual Net Rate of Return <sup>1</sup>	Benchmark Return of Russell 1000® Value Index	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion <sup>2</sup> of Annual Returns (St Dev)	Number of Portfolios <sup>3</sup>	Composite Assets (\$ Millions)	UMA Assets (\$ Millions) (Supplemental)	GIPS® Firm Assets (\$ Millions)	Total (\$ Millions) (Supplemental)
2018	-6.4%	-9.2%	-8.3%	9.1%	10.8%	0.4%	898	\$262.8	\$1,721.0	\$2,219.9	\$3,940.9
2017	15.6%	12.3%	13.7%	7.8%	10.2%	0.7%	902	\$301.6	\$2,044.9	\$2,790.7	\$4,835.6
2016	11.9%	8.6%	17.3%	8.5%	10.8%	0.5%	938	\$289.0	\$2,044.5	\$2,994.4	\$5,038.9
2015	-4.5%	-7.3%	-3.8%	8.9%	10.7%	0.4%	1146	\$318.5	\$1,590.0	\$3,658.9	\$5,248.9
2014	15.0%	11.6%	13.5%	8.1%	9.2%	0.5%	361	\$159.4	\$1,657.7	\$3,862.6	\$5,520.3
2013	24.8%	21.2%	32.5%	9.4%	12.7%	0.5%	863	\$328.7	\$1,009.2	\$3,286.3	\$4,295.5
2012	10.0%	6.8%	17.5%	11.5%	15.5%	0.3%	658	\$197.2	\$665.6	\$2,301.1	\$2,966.7
2011	8.2%	5.0%	0.4%	15.9%	20.7%	0.3%	465	\$130.1	\$314.5	\$1,127.9	\$1,442.5
2010	16.8%	13.4%	15.5%	18.5%	23.2%	0.4%	409	\$98.2	\$77.9	\$836.9	\$914.8
2009	25.0%	21.4%	19.7%	17.2%	21.1%	1.0%	386	\$80.0	\$10.5	\$541.2	\$551.8
2008	-22.8%	-25.2%	-36.9%	12.1%	15.4%	N/A	3	\$0.9	\$0.0	\$362.6	\$362.6
2007	2.1%	-0.9%	-0.2%	6.9%	8.1%	N/A	3	\$1.1	\$0.0	\$448.1	\$448.1
2006	17.7%	14.3%	22.3%	6.0%	6.7%	N/A	3	\$1.0	\$0.0	\$487.2	\$487.2
2005	5.7%	2.6%	7.1%	8.7%	9.5%	0.4%	18	\$9.3	\$0.0	\$463.6	\$463.6
2004	13.1%	9.8%	16.5%	12.7%	14.8%	0.4%	18	\$8.9	\$0.0	\$388.1	\$388.1
2003	23.3%	19.7%	30.0%	14.2%	16.0%	1.1%	21	\$8.5	\$0.0	\$231.0	\$231.0
2002	-9.0%	-11.7%	-15.5%	N/A	N/A	0.5%	42	\$11.0	\$0.0	\$110.7	\$110.7
2001	14.6%	11.3%	-5.6%	N/A	N/A	1.2%	45	\$12.4	\$0.0	\$82.2	\$82.2

<sup>1</sup>\*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 by an annual SMA fee of 3.0% (0.75%/quarter during 2001 and 0.25%/month thereafter).

<sup>2</sup>Dispersion is an asset-weighted standard deviation for the accounts in the composite the entire year (or year-to-date). “N/A” represents when dispersion is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

<sup>3</sup>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.

<sup>4</sup>“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.

## Large-Cap Value SMA Composite Performance Description (*cont'd*)

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Performance has been measured on a monthly basis from January 1, 2001, 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. During 2002, 2% of the assets are non-fee paying accounts. There are no non-fee paying accounts during any other period. 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.

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, 2018. 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 Large-Cap Value SMA composite has been examined for the periods January 1, 2001, through September 30, 2018. The verification and composite examination reports, as well as a complete list and description of the firm's composites, are available upon request by contacting Equity Investment Corporation, 1776 Peachtree Street NW, Suite 600S, Atlanta, GA 30309. 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. 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](http://www.adviserinfo.sec.gov)).

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