EQUITY INVESTMENT CORPORATION

2021 Third Quarter Commentary
Mid-Cap Value

October 2021

September was the worst month for stocks since March of 2020. The Russell Midcap® Value Index (RMCV) declined 3.7%, while the more growth-oriented S&P 500® Index fell 4.7%. Our Mid-Cap Value SMA (MCV) composite increased 0.1% gross*. (Net of an assumed maximum annual 3% SMA fee, our MCV composite fell 0.1%.)[1]

The quarter was a mixed bag – the RMCV fell 1.1%, but the S&P 500 Index gained 0.6%. Our MCV composite rose 0.4% gross* (-0.4% net). Relative to the value index, our value-added was attributable chiefly to our stock selection in the energy sector and our overweight in financials.[2]

Year to date, stocks have posted strong gains. The RMCV climbed 18.2%, and the S&P 500 increased 15.9%. Our MCV composite gained 22.5% gross* (19.8% net). Compared to the value index, our outperformance was primarily attributable to our overweights in energy and financials.

Investment Commentary

We would describe the current economic environment as akin to playing Whac-A-Mole — when one problem is eliminated, another pops up, sometimes in a seemingly unrelated area. For instance, demand for goods and services is strong, but the U.S. continues to experience extreme supply chain bottlenecks, especially with semiconductors and seaborne shipping from Asian exporters. The labor market continues to improve slowly, but unfilled jobs remain stubbornly high. Interest rates remain low, yet inflation is elevated, and its future path weighs heavily on investors' minds. The Delta variant raged through the summer but now appears to be on the decline in many areas of the country, and vaccination rates continue to climb slowly. As our country learns to live with the disease, returning to "normal" is no longer an abstract goal, but uncertainty and distortions will likely be a continued part of the landscape for some time to come.

As conservative investors, we are actively minimizing exposure in areas that may be over-earning from COVID-induced demand or lingering imbalances, particularly when valuations don't reflect any skepticism over the sustainability of margins or earnings.

Despite value outperforming growth year to date, and some of the biggest thematic winners of 2020 underperforming so far in 2021,[3] there remains a historically wide valuation gap between growth and value stocks, as shown in the following chart. This gap was driven chiefly by growth's historic outperformance versus value over the past five years. According to our analysis, however, most of that performance was attributable to valuation change, not superior fundamentals.[4] As a result, growth stocks are now as expensive as they were during the tech bubble.

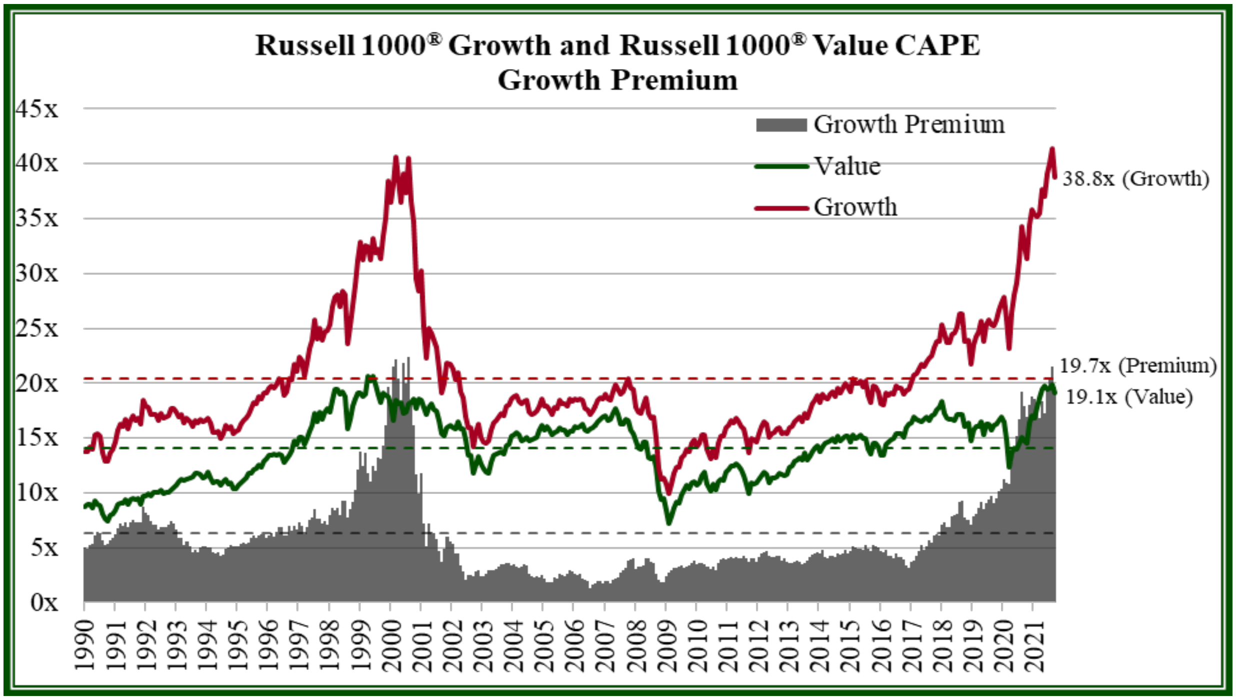

Chart 1 Data Source: S&P Capital IQ^PRO. See footnote 5.

It is worth noting that value is also at the high end of its historical range, though that range has been much narrower than growth, and in the past has produced good returns from similarly high levels. As we have discussed in past letters, part of the increase in value stock valuations is due to the changing composition of the value index from each annual reconstitution.[6] There is still significant dispersion in valuations within the value index, and we continue to find attractively priced stocks.

Some claim the market, and growth in particular, is more reasonably priced on future earnings. On forward earnings expectations, the Russell 1000® Growth Index is trading at 27.5x earnings, while the Russell 1000 Value® Index is at 15.8x, and our representative portfolios are at 13.1–13.3x.[7] At first glance, this does indeed appear ***somewhat*** more reasonable for growth. However, it is worth looking at the margin expectations that underlie those valuations, as seen in the next chart.

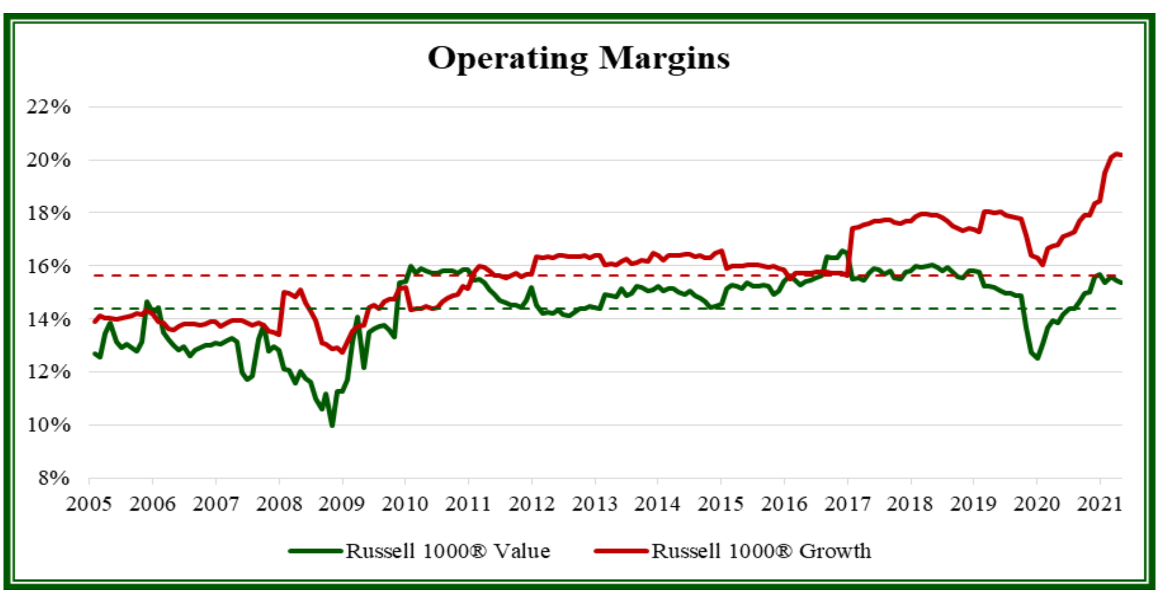

Chart 2 Data Source: S&P Capital IQ^PRO. See footnote 8.

Forward margins for the value index are reasonably close to "normal". Moreover, pockets of value stocks have lower operating margins than their historical average.[9] Still, margin levels bear watching and careful analysis in security selection.

Turning to growth, however, not only are forward margin expectations at all-time highs, but they are also a fair amount higher than they have ever been. Thus, valuations are expensive on forward earnings estimates that are based on all-time high margins. At these valuation levels, growth investors need to have confidence that any margin boosts that occurred during the COVID pandemic will prove durable and that changes in work-from-home patterns, online consumption, stimulus-led demand, supply chain bottlenecks, exuberant venture capital funding, or just good, old-fashioned competition won't work to pressure and erode those margins. In the past, small negative changes in expected margins, growth, or earnings have often had an outsized impact on expensively priced stocks. Whether history repeats remains to be seen, but current growth valuations do not bode well for growth's forward returns, as seen in the chart below.

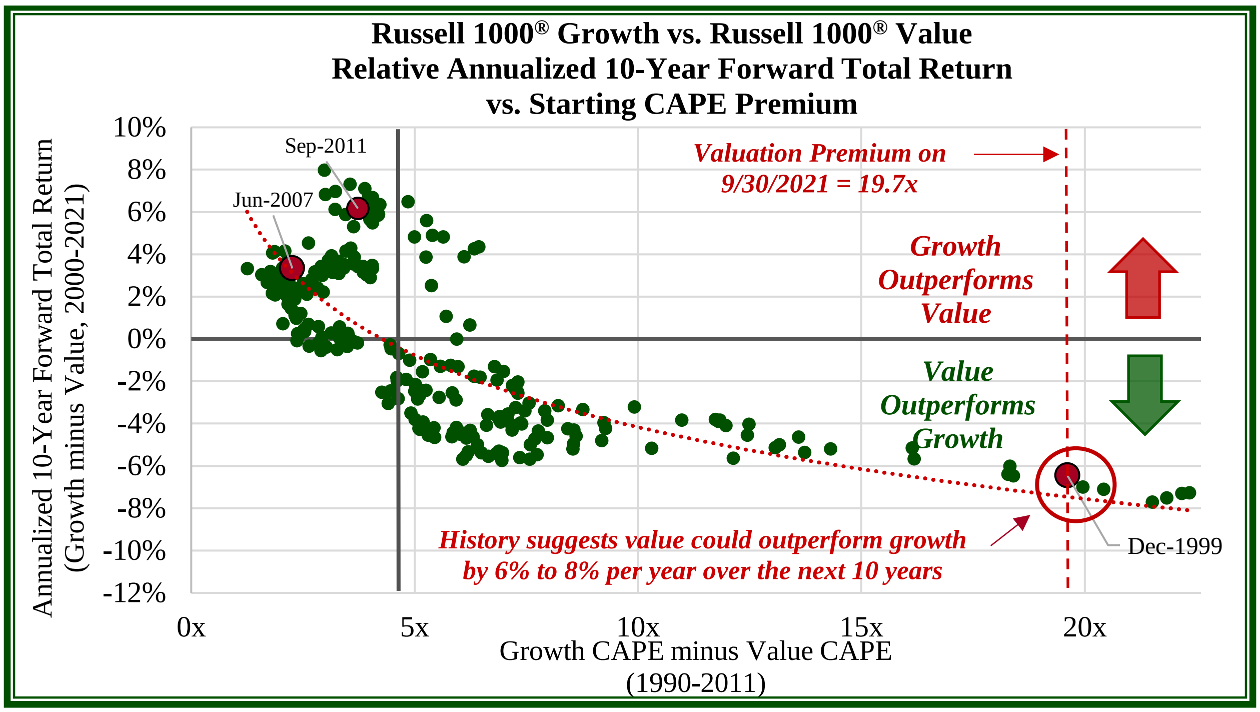

Chart 3 Data Source: S&P Capital IQ PRO. See footnote 10.

Today, growth carries a valuation premium of nearly 20x earnings over value. Growth stocks were priced at a similar premium in December of 1999. From that starting point, growth ***underperformed*** value for the next decade by 650 basis points annually, with value stocks delivering a return of 2.5% a year while growth ***declined*** 4% a year. Moreover, those absolute returns are somewhat muted by the inclusion of the financial crisis in 2008 and 2009, which disproportionately affected value. On a seven-year basis through year-end 2006, value stocks gained 7.8% annually compared to a 4.9% ***decrease*** for growth, a spread of 1,270 basis points in annual performance.[11]

In summary, we believe that the overall equity market remains extremely expensive on most valuation measures. To us, the principal risk for equity investors has less to do with the near-term path of COVID, supply chain bottlenecks, or inflationary pressures, and more to do with rich equity market valuations, particularly among growth stocks, which are trading at historically high levels based on record-high profit margins. In contrast, we continue to find pockets of attractive investments among the value-stock universe.

Portfolio Positioning[12]

We've always invested where value leads, rather than focusing on whether a stock is labeled as "growth", "core", or "value". Indeed, it is not uncommon for stocks classified as growth and core to meet our valuation criteria. For example, after underperforming in the 2000s, growth and core stocks were attractively valued, and in 2010–2011 we invested almost 70% of our portfolios in them.

Today, due to the historic relative opportunity in value, our portfolios continue to tilt toward classic value names. Accordingly, the proportion of our holdings in the value classification is among the highest weightings we have seen in over 15 years, as shown in the following chart. Broadly speaking, at these valuation levels, we view value as the best chance equity investors have of earning reasonable returns.

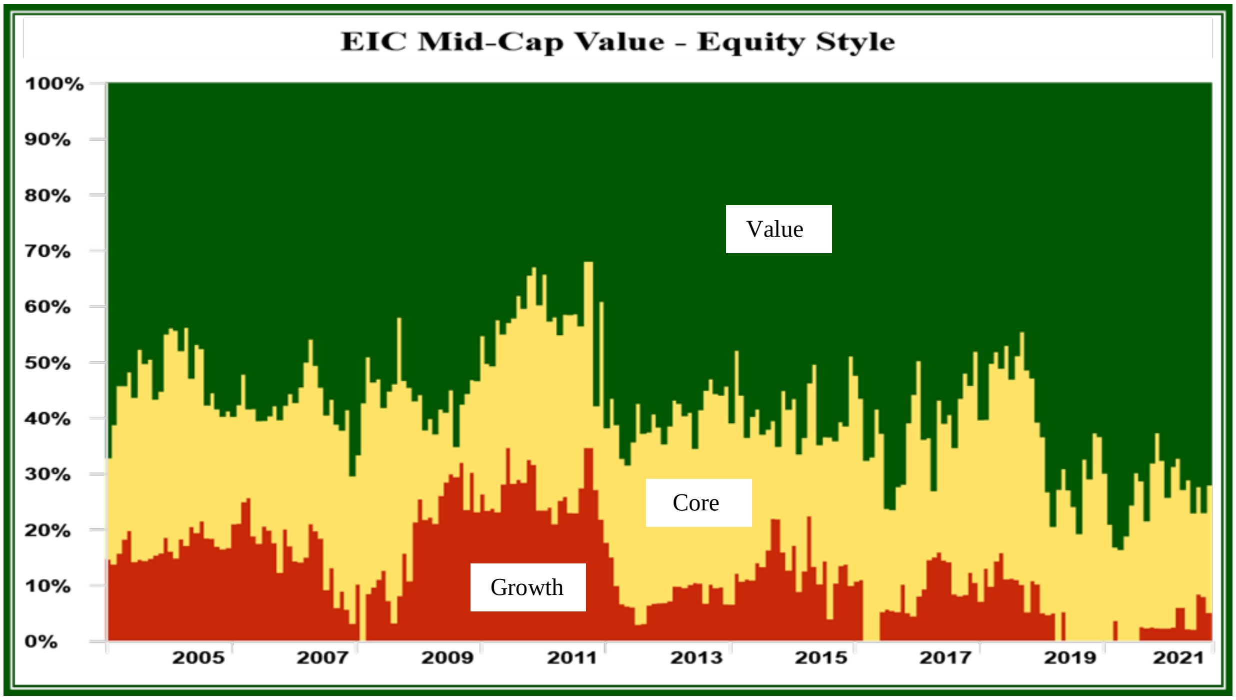

Chart 4 Data Source: Morningstar Direct SM. See footnote 13.

Equity investors have been lulled in recent years by a notion referred to as TINA – there is no alternative – due to ultra-low interest rates. We would counter that as broad equity markets, especially growth stocks, are priced to deliver poor returns, an alternative is reasonably priced, high-quality value stocks.

As a reminder, our sector weights are largely a residual of our stock selection process, subject to risk management limits. We do not attempt to make sector-based macro bets. That said, we maintain large overweights in financials and energy, with the combined sectors representing 45% of our portfolio compared to a 22% combined weighting in our benchmark index. Banks and energy companies are operating in a prudent and disciplined manner, born from the financial crisis and a decade of volatility in oil prices. They continue to trade very inexpensively relative to history. While rising inflation and attendant higher interest rates would further benefit these businesses, at current valuations we don't need those outcomes for the stocks to deliver attractive returns. As always, when investing in more economically sensitive areas, we focus on the quality of a business franchise, its balance sheet, and its proven ability to earn respectable returns on capital.

We are also finding value in more stable sectors and currently carry meaningful overweights in consumer staples and utilities, representing 22% of our portfolio compared to 11% for the RMCV index. This basket of stocks sports modest growth prospects, defensive business characteristics, reasonable returns on capital, solid balance sheets, and a well-covered dividend yield of 3.7%, while trading at just over 13x expected earnings.[14] Although this basket is unlikely to generate outsized absolute returns, it offers value as part of a diversified portfolio, especially in an environment with low yields on income-producing securities where reasonably priced, lower volatility investments are in short supply.

During the quarter, we didn't buy any new positions, but we did sell our position in Cullen Frost Bankers, based on valuation. We opportunistically added to existing positions in Discovery, Ingredion, Dollar Tree, and Smith & Nephew. As a result of these trades, cash at the end of the quarter comprised 8% of our representative portfolio.

While we are pleased with our year-to-date performance, broad equity markets continue to trade near record highs. In particular, growth stocks remain richly priced, with a historically wide spread in valuation relative to value stocks. Accordingly, we believe our portfolios of reasonably priced, high-quality value stocks offer a measure of protection from prevailing equity-market risk.

As always, we thank you for your continued partnership with EIC.

Investment Team

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Disclosures

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[1]*EIC's MCV results are those of our Mid-Cap Value SMA composite gross (before) and net (after) a maximum annual SMA fee of 3% (0.25% per month) (which is assumed to be equal to or higher than the highest actual SMA fee charged by a program sponsor). 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 GIPS® Composite Reports, which are considered an integral part of this commentary. 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. 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 or may possibly be reduced by brokerage firm wrap fees, which include transaction costs, portfolio management, custody, and other administrative fees.***

[2]*Source: Morningstar Direct℠. Portfolio positions and their returns are from a representative Mid-Cap Value portfolio relative to the Russell MidcapValue Index, respectively. 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.*

[3]*Of the 10 Largest Thematic Funds in the U.S. mentioned in Morningstar's May 2021 Global Thematic Funds Landscape, eight of the funds listed have posted year to date performance through September 30, 2021 below their calendar year 2020 performance.*

[4]*Data Source: S&P Capital IQ[PRO]. Cumulative Russell 1000 Value Index returns relative to cumulative Russell 1000 Growth Index returns from September 30, 2016 through September 30, 2021. Total Return: Relative total return of the Russell 1000 Value Index vs. the Russell 1000 Growth Index for the period. Valuation Change: Multiple expansion defined by the relative valuation of the Russell 1000 Value Index modified CAPE vs. the Russell 1000 Growth Index modified CAPE at the end of the period divided by their relative valuation at the beginning of the period. Fundamental Return: Earnings growth and dividends defined by the relative Total Return of Russell 1000 Value Index vs. Russell 1000 Growth Index minus relative Valuation Change.*

[5]*Russell 1000 Growth Index modified CAPE (red line), Russell 1000 Value Index modified CAPE (green line), Russell 1000 Growth Index modified CAPE premium over Russell 1000 Value Index modified CAPE (gray area) at each month-end from January 31, 1990 to September 30, 2021. Modified CAPE (Cyclically Adjusted Price-to-Earnings) is the ratio of index prices to trailing 10-year index level earnings before taxes (EBT) on a time-weighted basis. Annual index level EBT is imputed by dividing the year-end index price by an aggregated price to EBT multiple of index constituents.*

[6]*As we wrote in our Q1 2021 commentary, "... the Russell 1000® Index now has more than twice the number of companies considered to be value as those considered to be growth ...". In May of each year, FTSE Russell classifies each constituent in the Russell 1000 Index as growth, value or a blend of the two. The number of companies in the Russell 1000 Index by style classification based on each constituent's weight in either the Russell 1000 Value Index and/or the Russell 1000 Growth Index for the month-ended September 30, 2021 was 341 growth and 685 value stocks.*

[7]*Source: Morningstar Direct℠. Russell 1000 Growth Index and Russell 1000 Value Index asset-weighted average of the ratio of September 30, 2021 share prices to each company's estimated EPS for the next fiscal year. P/E Ratio Forward of EIC MCV, ACV, and LCV representative portfolios as of September 30, 2021.*

[8]*Russell 1000 Growth Index and Russell 1000 Value Index forward operating margins calculated as index-weighted forward operating income divided by index-weighted forward revenue, using next 12-months (NTM) analyst estimates, from June 30, 2005 through September 30, 2021. Average ("normal") forward operating margin over entire period of 15.6% for Growth and 14.4% for Value.*

[9]*In the Russell 1000 Value Index, the Healthcare and Real Estate sectors along with the Food & Staples Retailing, Banks, Transportation, and Integrated Oil & Gas industries, have forward operating margins at September 30, 2021 below their historical average for June 30, 2005 through September 30, 2021.*

[10]*Russell 1000 Growth modified CAPE premium over Russell 1000 Value modified CAPE (x-axis) for each month-end January 31, 1990 to September 30, 2011, plotted against the annualized 10-year forward total return difference between the Russell 1000 Growth and Russell 1000 Value (y-axis) through each month-end January 31, 2000 to September 30, 2021.*

[11]*Source: Morningstar Direct℠. Russell 1000 Value Index and Russell 1000 Growth Index annualized returns for the periods January 1, 2000 through December 31, 2009 and January 1, 2000 through December 31, 2006.*

[12]*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 herein 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.*

[13]*Source: Morningstar Direct℠. EIC Mid-Cap Value month-end portfolios from January 31, 2004 through September 30, 2021. Graph examines portfolio consistency and trends based on the percentage of portfolio holdings grouped into value, growth and core categories as defined by Morningstar.*

[14]*Data Source: S&P Capital IQ [PRO]. Basket of Mid-Cap Value representative portfolio holdings (EXC, NFG, OGE, PPL, INGR, KR, TSCDY and WBA). Weighted average of price to NTM EPS and expected dividend yields as of September 30, 2021.*

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

									Advisory-Only (UMA) and Managed Assets		
Year Ended Dec - 31	Gross* Rate of Return[1] (Supplemental)	Assumed 3% annual 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)
2021 (through 9/30)	22.5%	19.8%	18.2%	19.4%	23.1%	0.7%	11	$2.9	$2,002.0	$1,898.3	$3,900.3
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

[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] "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 and the benchmark returns over the preceding 36 month period.

See next page for additional disclosures

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.

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 June 30, 2021. 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).