EQUITY INVESTMENT CORPORATION

Mid-Cap Value

2022 First Quarter Commentary

April 2022

It was the worst quarter for stocks in two years.[1] The Russell Midcap® Value Index (RMCV) declined 1.8%, while the Russell Midcap® Growth Index dropped 12.6%, and the S&P 500® fell 4.6%. In comparison, our Mid-Cap Value (MCV) SMA composite ***increased*** by 5.8% gross*. (Net of an assumed maximum annual 3% SMA fee, our MCV SMA composites gained 5.0%.)[2]

While performance for one quarter in isolation doesn't tell us much, there were a few interesting things worth noting:

- Relative to the Russell value and S&P 500 indexes, our first-quarter results rank among the best in EIC's 36+ year history. Most of the quarters when our strategies performed better than this were either during the bursting of the tech bubble in 2000-2001 or during the financial crisis in 2008, two extraordinarily difficult periods. [3]
- The quarter's outperformance was largely due to our stock selection in four sectors—financials, health care, consumer discretionary, and communication services. Our overweight in energy, the top-performing sector this quarter, also contributed.[4] Historically, our value-added relative to market indexes has come mainly from stock selection. Sector weights are primarily a by-product of our bottom-up investment approach.
- Only four sectors in the RMCV posted positive year-to-date returns: energy, consumer staples, materials, and utilities. In contrast, our MCV portfolios saw positive returns in eight sectors, while only three sectors registered negative returns.

Investment Environment

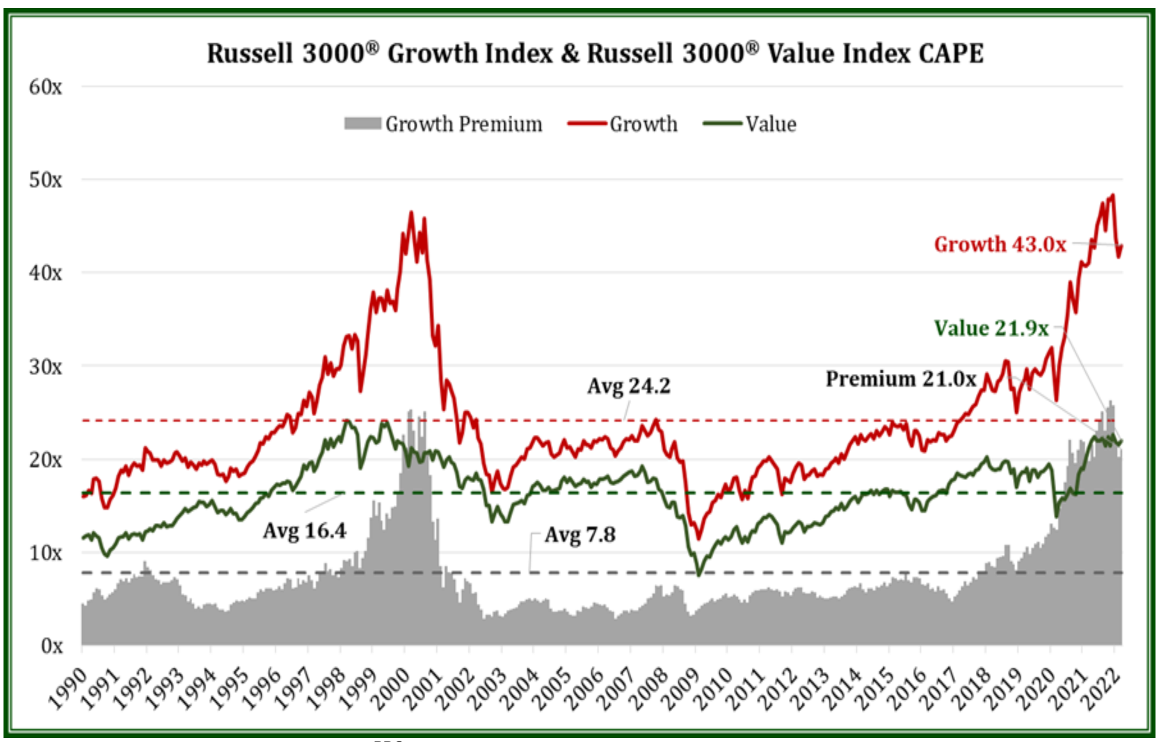

Chart 1 Data Source: S&P Capital IQ^{PRO}. See footnote 5.

As shown in the previous chart, despite growth stocks' poor performance so far this year, they remain richly priced compared to history, with valuations still trading 2.5 standard deviations above long-term averages. As we have detailed in past commentaries, history and shareholder-return math continue to suggest that growth should meaningfully underperform value from these lofty valuation levels.[6]

Importantly, as seen in the following chart, which covers growth stocks' meteoric valuation rise since the beginning of 2017, fundamental returns (i.e., earnings and dividends) for growth have ***not*** been superior to value. ***In fact, all the outperformance of growth over value has come from valuation expansion.***

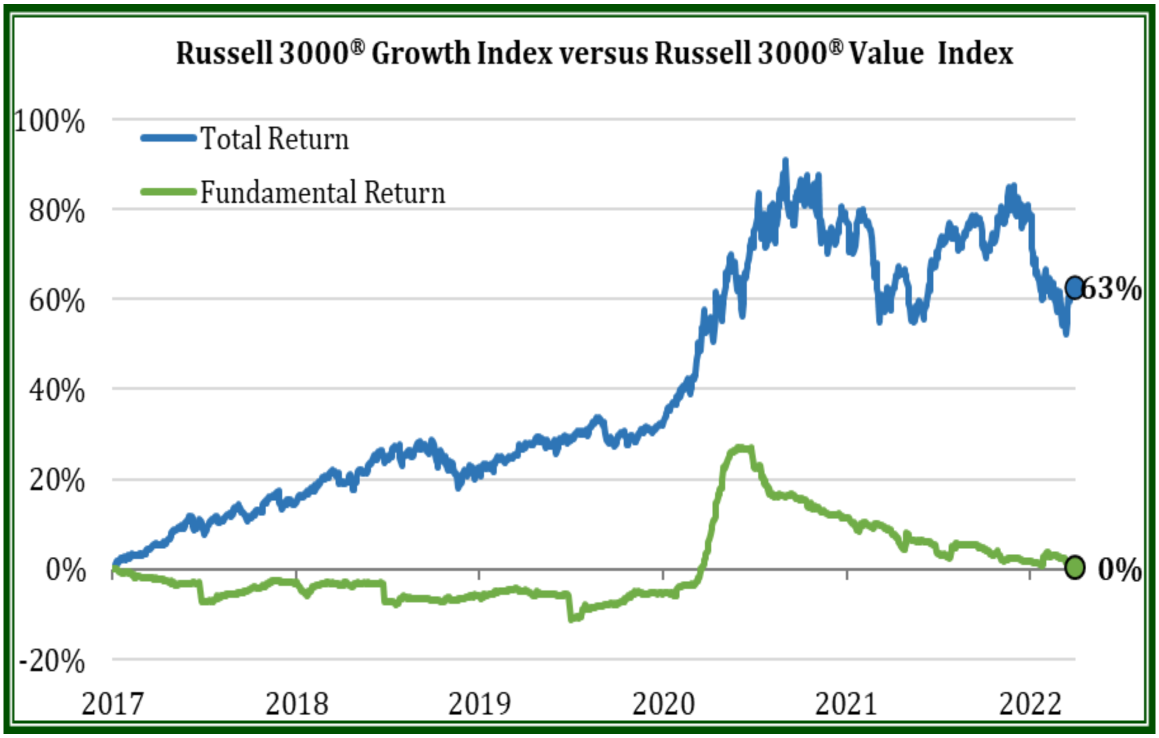

Chart 2 S&P Capital IQ^{PRO}. See footnote 7.

The flexibility to invest where value leads, rather than focusing on whether a stock is labeled as "growth", "core", or "value", has always been one of our hallmarks. For example, after underperforming in the 2000s, growth and core stocks were attractively valued, and in 2010 we invested almost 70% of our portfolios in them. Recently, however, we're finding the most attractive investment opportunities among stocks classified as value. Accordingly, the proportion of our holdings classified as value is among the highest in 20+ years.[8]

That said, with nearly a third of stocks in the Russell 3000® Growth Index (R3000G) off more than 50% from their 52-week highs, we have found ourselves spending more time investigating stocks in the growth universe.[9] While many of these fallen angels screen attractively on adjusted earnings measures, we find that real earnings power for some in this group is well below management's version of non-GAAP earnings. For instance, stock-based compensation, commonly backed out of non-GAAP measures, frequently accounts for more than 25% of pre-tax income.[10] Accounting quality due diligence is a key part of our risk mitigation process, and the majority of fallen growth companies we have reviewed remain prohibitively expensive when such earnings distortions are unwound.

The next chart illustrates the recent increase of stock-based compensation expense within the growth index. Moreover, as the R3000G returned 20% annually over the past five years, employees received outsized compensation due to stock-price gains, while companies only expensed a part of the total value transferred. We believe investors ignore this cost at their peril.

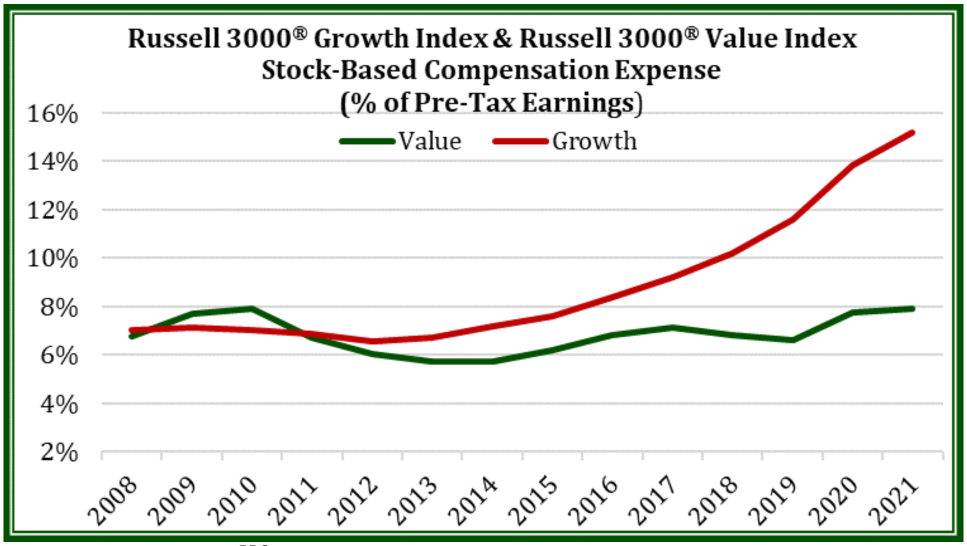

Chart 3 S&P Capital IQ[PRO]. See footnote 11.

Consider the extreme case of Tesla. For the three years ended December 2021, Tesla expensed $4.8 billion in stock-based compensation yet earned only $6.8 billion in total pre-tax income over the same period, so stock-based compensation represented 70% of pre-tax income. That $4.8 billion non-cash expense was excluded from pro-forma earnings and cash flow, distorting the underlying reality in both cases. Further, the value of this stock-based compensation, given the company's strong stock-price performance, is significantly more than reflected on the income statement. At year-end, the total intrinsic value of Tesla's employee stock options outstanding—that is, the market price of its stock above the options' strike price—was $116 billion! In 2021 alone, employees exercised options for total net proceeds of nearly $27 billion, representing 50% of Tesla's total 2021 revenues.[12]

For the most part, it has been a free lunch for both employees and the company, enabled by stock-based compensation accounting, which does not fully reflect the value transferred, and market convention, which has allowed companies to add back stock compensation to earnings. But the lunch isn't free; it's paid for by shareholders. While shareholders may happily bear that cost, there's no justification for pretending they didn't pick up the tab.

In addition to high valuations and an increasing distortion from stock-based compensation, growth investors must contend with high margins underpinning those elevated valuations, as seen in the following chart.

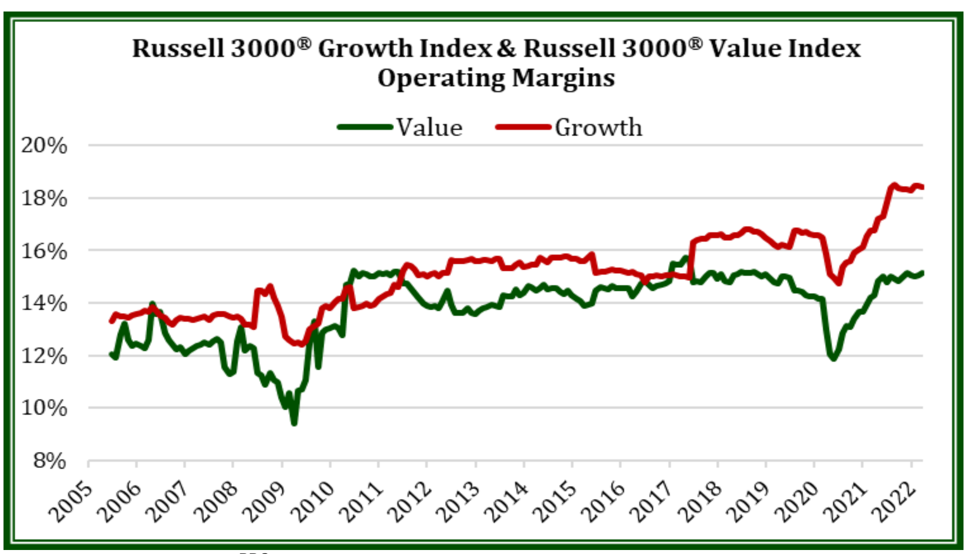

Chart 4 S&P Capital IQ[PRO]. See footnote 13.

Growth companies, particularly in the technology, consumer discretionary, and communication services sectors, benefitted disproportionately from pandemic-induced demand for remote software, cloud computing, technology hardware, e-commerce, and online advertising, among others. While value margins appear slightly elevated compared to history and bear watching, growth margins are at all-time highs. To the extent that cost pressures, competition, and a post-pandemic return to normal demand patterns weigh on margins, growth investors seemingly have more at risk.

Portfolio Review[14]

As is common for us during heightened market volatility, turnover has increased somewhat this year.[15] In addition to opportunistic trims and adds, we sold three positions: Exelon, Kroger, and McKesson based on valuation.

During the quarter, we bought two stocks: Cardinal Health and Paramount Global. We also received a small position in Constellation Energy as a tax-free spin-off from Exelon.

We acquired a 2% position in pharmaceutical distributor Cardinal Health (CAH). Since the pandemic began, CAH has lagged peers AmerisourceBergen and McKesson, both of which were selected by the US government for exclusive distribution agreements for margin accretive COVID vaccines and therapeutics. While profit growth for Cardinal has trailed its peers recently, revenue growth in the core distribution business has been nearly identical for all three. We think Cardinal offers attractive value at just 11x our view of normalized earnings power. In addition, CAH is rated *BBB* by S&P.[16] With this buy; we sold our position in McKesson (MCK) at 18x normalized earnings.

We bought a 1.5% position in Paramount Global (PARA). Formerly known as ViacomCBS, Paramount Global owns leading TV networks (e.g., CBS, Showtime, Nickelodeon, BET, and Comedy Central) and the Paramount Pictures film studio. In mid-February, the company announced plans to accelerate investments in its direct-to-consumer offerings (e.g., Paramount+, Showtime, BET+, Noggin, and Pluto TV). Though viewership of these services has been strong, the format is not yet profitable, and the announcement triggered a 22% decline in share price. We acquired our stake on this dip at 11x forward EPS or less than 7x forward EPS, excluding direct-to-consumer investments. The company is rated *BBB* by S&P.

Finally, we received a modest 0.6% position in Constellation Energy (CEG) in a tax-free spin-off transaction by Exelon (EXC). Constellation is an independent power provider and operates the largest fleet of carbon-free electricity generation assets in the US. Specifically, almost 90% of its power generation is nuclear. While nuclear power generation often has been controversial, we believe it will continue to represent an important piece of the overall energy picture, particularly with progress toward global decarbonization. An increasingly favorable regulatory stance toward nuclear power and the potential for support at the federal level from production tax credits should meaningfully reduce earnings volatility for the company if power prices fall substantially. We estimate that CEG currently trades at a modest 12x normalized earnings power. The company is rated *BBB-* by S&P.

In an overall market environment characterized by expensive valuations, attractive opportunities bearing reasonable return expectations have become more difficult to find, and cash levels at quarter-end totaled about 11%. Our portfolio remains diversified across sectors and is positioned for a range of economic outcomes. The portfolio features a weighted average valuation of roughly 13x trailing earnings, a 15% return on equity, double-digit expected earnings growth, and a 2.3% dividend yield, with an estimated *BBB+* credit rating.[17, 18]

Staff Update

We would like to recognize Barbara Trivedi, our Chief Compliance Officer, who retired on March 31st. Barbara has been with us since 2011 and has played an instrumental role in ensuring our compliance with SEC rules and regulations, as well as other industry standards and best practices. Barbara is succeeded by Phillip Lorren, who has been with EIC since 2014. Phillip managed our operations and worked with Barbara in anticipation of her retirement. Jake Shirley, who joined us in 2018, assumed Phillip's position in operations. Congratulations to Barbara for an exceptional career and a much-deserved retirement and to Phillip and Jake for their promotions.

As always, we thank you for your business and stand ready to assist you.

Investment Team

W. Andrew Bruner, CFA, CPA   R. Terrence Irrgang, CFA   Ian Zabor, CFA

Robert Ladyman, CFA   Thomas Knapp, CFA

Disclosures

[1] *As measured by the S&P 500®, Russell 1000®, Russell 2000®, and Russell 3000® indexes.*

[2] *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.

[3] *Based on quarterly results for EIC MCV SMA since January 1, 2004 inception relative to the Russell Midcap Value Index; EIC Large-Cap Value SMA since January 1, 2001 inception relative to the Russell 1000® Value Index; EIC All-Cap Value SMA since January 1, 1986 inception relative to the Russell 3000 Value Index; and all three strategies relative to the S&P 500 since their respective inception dates.*

[4] *Data Source: Morningstar Direct℠. Performance attribution for EIC MCV representative portfolio versus Russell Midcap Value Index from January 1, 2022 through March 31, 2022.*

[5] *Russell 3000 Growth Index modified CAPE (red line), Russell 3000 Value Index modified CAPE (green line), Russell 3000 Growth Index modified CAPE premium over Russell 3000 Value Index modified CAPE (gray area) at each month-end from January 31, 1990 to March 31, 2022. 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.*

Standard deviations for growth CAPE, value CAPE, growth premium over the period were: ±7.5x, ±3.4x, ±5.1x.

[6]Data Source: S&P Capital IQ^{PRO}. The Russell 3000 Growth Index modified CAPE premium over Russell 3000 Value Index modified CAPE for each month-end January 31, 1990 to March 31, 2012, plotted against the annualized 10-year forward total return difference between the Russell 3000 Growth and Russell 3000 Value through each month-end January 31, 2000 to March 31, 2022 indicates 5-8% per year historical underperformance of growth versus value at a 21-22x valuation premium of growth over value.

[7]Daily returns and NTM forward P/ E of the Russell 3000 Growth Index and Russell 3000 Value Index from December 31, 2016 through March 31, 2022. Total Return: Total return of the Russell 3000 Growth Index relative to the Russell 3000 Value Index for the period, indexed to January 1, 2017. Fundamental Return: Total return divided by the NTM forward PE multiple. Fundamental return of Russell 3000 Growth Index relative to the Russell 3000 Value Index, indexed to January 1, 2017.

[8]Data Source: Morningstar Direct^{SM}. EIC MCV month-end portfolios from March 31, 2001 through March 31, 2022. Percentage of portfolio holdings grouped into value, growth and core categories as calculated and defined by Morningstar.

[9]Data Source: S&P Capital IQ^{PRO}. The percentage of stocks in the Russell 3000 Growth Index that are down more than 50% from their respective 52-week high, as of March 31, 2022.

[10]Data Source: S&P Capital IQ^{PRO}. Stock-compensation expense as a percentage of calendar year 2021 pre-tax earnings excluding unusual items. Results are calculated for stocks in the Russell 3000 Growth Index as of March 31, 2022.

[11]Stock-compensation expense is shown as a percentage of calendar year 2021 pre-tax earnings excluding unusual items. Results are calculated annually on an index-weighted basis for the Russell 3000 Growth and Russell 3000 Value indexes, each shown as a rolling three-year average from January 1, 2006 through March 31, 2022. Figures before 2006 are not comparable due to changes in accounting.

[12]Data Source: Tesla Inc. Form 10-K, 2021, 2022. https://www.sec.gov/Archives/edgar/data/1318605/

00009501722000796/tsla-20211231.htm. 6 April 2022.

[13]Russell 3000 Growth Index and Russell 3000 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 March 31, 2022.

[14]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 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.

[15]Historically, our annual turnover for MCV has averaged 30%, implying we hold the "typical" stock for about 3-4 years. In the first quarter of this year, our annualized turnover for MCV approached 39%.

[16]Data Source: S&P Capital IQ^{PRO} as of March 31, 2022. Credit-quality ratings represent Standard & Poor's (S&P) opinion as to the quality of the securities they rate. The ratings range from AAA (extremely strong capacity to meet its financial commitments) to D (in default). Ratings are relative and subjective and are not absolute standards of quality.

[17]Source: Morningstar Direct^{SM}. For EIC MCV representative portfolio weighted average TTM P/E Ratio, weighted median TTM ROE, median estimated 5-year long-term earnings growth, calculated by Morningstar as of March 31, 2022. Dividend yield on March 31, 2022 calculated by APL.

[18]The ratings provided relate to the weighted average credit rating of the underlying securities within the representative MCV portfolio and not the portfolio itself.

Equity Investment Corporation
Mid-Cap Value SMA Composite Report

									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)
2022 (through 3/31)	5.8%	5.0%	-1.8%	18.6%	21.6%	0.1%	12	$3.6	$2,248.7	$2,208.9	$4,457.6
2021	30.2%	26.5%	28.3%	18.9%	22.0%	0.7%	12	$3.4	$2,108.2	$2,027.4	$4,135.6
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

Table Notes:

[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] 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.

[4] "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.

Disclosures:

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

From January 1, 1986, through December 31, 1999, Jim Barksdale was primarily responsible for creating and achieving the performance results. Andrew Bruner joined as the second member of EIC's investment team in December 1999. From that point through the present day, portfolios have been managed using a team-based approach. Terry Irrgang became the third member of our investment team in April of 2003. Ian Zabor became the fourth member of our team, joining EIC in July of 2005.

Effective September 30, 2016, we implemented a succession plan to ensure the continuity and stability of our firm. In a transaction that closed on that date, a new investment adviser entity formed by Messrs. Bruner, Irrgang, and Zabor purchased substantially all of the assets and assumed all of the liabilities necessary for EIC's continuous operation from Mr. Barksdale. That new registrant succeeded to all of EIC's business. As planned, Mr. Barksdale's tenure at EIC ended in August of 2019 when his transitional employment agreement expired.

Our investment team has been responsible for achieving the performance results shown in the table on page 1.

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.

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.

Disclosures *(cont.)*:

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 December 31, 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).

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