EQUITY INVESTMENT CORPORATION

Mid-Cap Value

2022 Second Quarter Commentary

July 2022

It was the worst first half of the year for stocks in over 50 years.[1] Adding to the pain, bonds performed poorly. According to Deutsche Bank, 10-year US Treasuries had their worst first half since 1788, just before George Washington became president.[2] The performance of fixed income, typically a ballast in volatile times, was, to some, the most shocking surprise so far this year. Amid the chaos, our Mid-Cap Value (MCV) SMA composite posted the best first-half results in its history relative to its benchmark index.[3]

In the second quarter, our MCV SMA composite declined 9.6% gross*, the Russell Midcap® Value Index (RMCV) fell 14.7%, and the more growth-oriented S&P 500® dropped 16.1%. Year to date, our MCV SMA composite decreased 4.4% gross* while the RMCV fell 16.2%, and the S&P 500 lost 20.0%. (Net of an assumed maximum annual SMA fee of 3%, our MCV SMA composite declined 10.3% in the second quarter and 5.8% year to date.) [4]

A few things are noteworthy in our year-to-date results. Our energy overweight, the only sector of the stock market with positive results year to date, contributed 3.7% in absolute return and 2.5% in relative return for MCV compared to its RMCV benchmark. But unlike its benchmark, MCV had two more sectors deliver positive returns—consumer discretionary stocks increased 10.9%, and utilities gained 3.9%. Moreover, MCV produced a positive "active return", the contribution from a combination of sector over- or under-weights and stock selection, in all but one sector, materials. [5]

In short, our outperformance versus the benchmarks so far this year was broad-based, driven primarily by stock selection across a range of sectors rather than any one particular sector bet. In a market that has been fixated on growth regardless of valuation, our consistent focus on quality, value, and diversification has proved valuable for clients this year, as it has through prior bouts of market volatility.

Investment Environment

After the rough start to this year, the question in many investors' minds is, "What comes next?". Given the steep decline in growth stocks, we have been actively looking at opportunities within this group. Big picture, however, valuations remain elevated among growth stocks but are more reasonable on the value side, as shown in the following chart. Accordingly, our portfolios continue to favor value stocks.

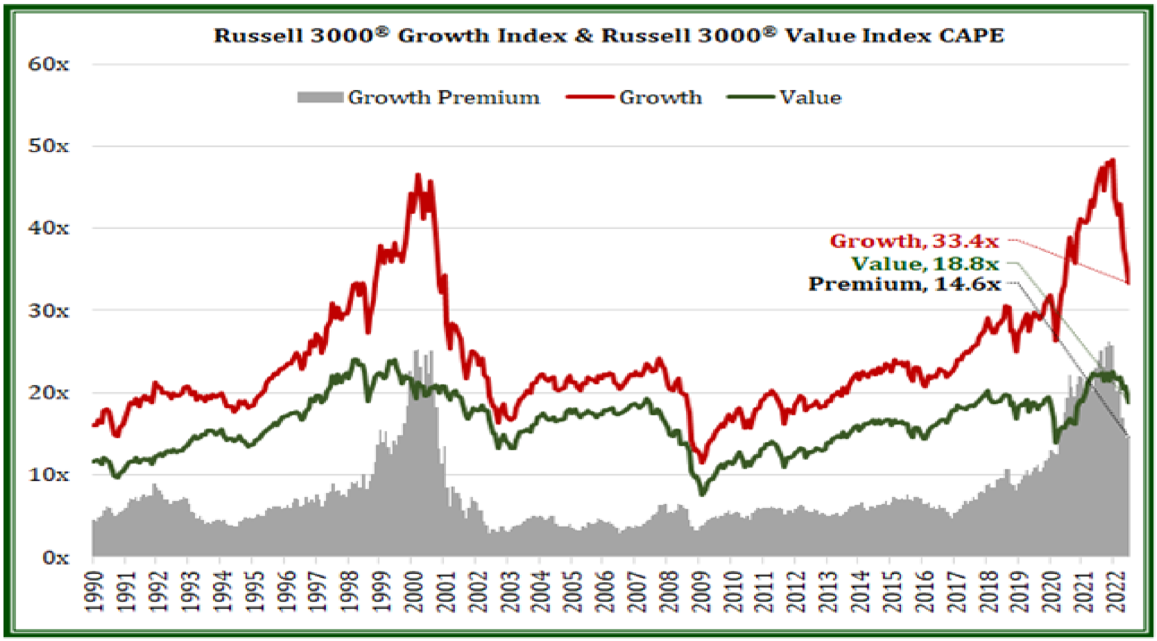

Chart 1 Data Source: S&P Capital IQ^PRO. See footnote 6.

Over the longer run, the performance of growth and value stocks has been similar.[7] Yet, largely because of the 2017-2020 outperformance of growth, driven almost exclusively by its valuation multiple expansion relative to value, growth stocks still have a commanding performance lead compared to value over the last decade.[8] While growth stocks may settle here at still-high valuation levels, we believe it is more likely that they will further underperform. Indeed, our analysis of historical valuations and returns suggests that, from current levels, growth could underperform value by 400 to 600 basis points a year for the next decade.[9]

On top of growth valuations still elevated relative to historical levels, growth investors must also contend with historically high margins supporting those valuations.[10] In addition, recently elevated levels of stock-based compensation could prove difficult to navigate if stock prices do not rebound. Consider, for example, the case of DocuSign. In fiscal 2021 and 2022, the company reported positive non-GAAP (or Pro-forma) earnings per share of $0.98 and $2.09, respectively. However, if the hundreds of millions of dollars the company paid in stock-based compensation were included, the company lost money in both years.[11] In other words, the company was unprofitable when including the full costs of paying its employees.

DocuSign is not unique in this regard—earnings quality for the software industry has steadily deteriorated over the past 15 years. Excluding Microsoft, the industry trades at 33x forward non-GAAP earnings estimates. Such a multiple might be justified, assuming rapid growth, high returns on capital, a healthy balance sheet, and clean accounting. But trading at 108x forward GAAP earnings estimates (ex-Microsoft), the software industry does not meet these criteria. Headline valuations based on non-GAAP earnings can present a severely distorted view of the industry's attractiveness. As shown in the next chart, the increasing divergence between non-GAAP and GAAP earnings estimates provides, in our view, yet another reason that more pain is likely for growth investors.

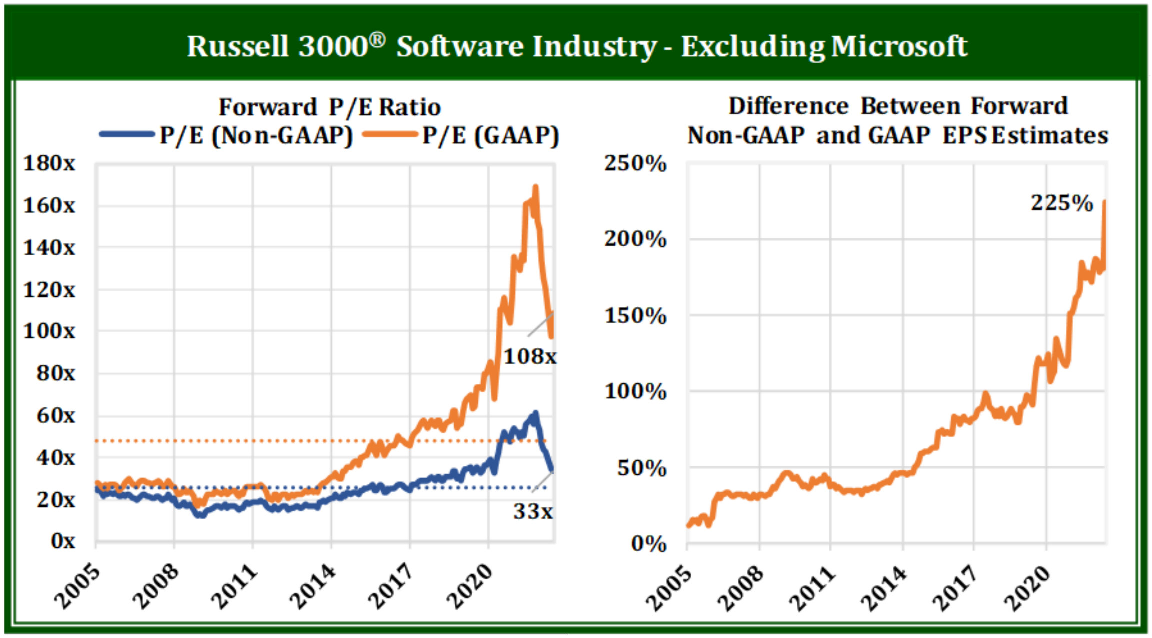

Chart 2 S&P Capital IQ^PRO. See footnote 12.

Portfolio Review[13]

During the quarter, we added to six existing positions: Cardinal Health, Citizens Financial, Old Republic, Oshkosh Corporation, Paramount Global, and PPG Industries. We also trimmed five holdings: Comerica, Coterra Energy, Dollar Tree, The Travelers, and Williams. In all cases, the adds and trims were opportunistic and valuation driven.

We acquired a new 2.5% position in Flagstar Bancorp (FBC), a Michigan-based community bank specializing in mortgage lending and origination. As the country's sixth largest bank mortgage originator, FBC delivered very strong earnings during the pandemic as mortgage rates hit record lows and home sales reached levels not seen since before the financial crisis. Rising mortgage rates and slowing transaction volumes have recently reduced earnings expectations for FBC. Adding to the uncertainty, New York Community Bancorp (NYCB) agreed to purchase FBC at a modest premium in April of 2021, a deal that, to date, has not closed. We see no obvious reason that this acquisition would be blocked, yet the lack of clarity over timing appears to be weighing on the valuations of both businesses. That said, we think the valuation of FBC has overcompensated for the earnings normalization and acquisition uncertainty, with the stock trading around .7x tangible book value at our time of purchase.

In addition, we eliminated two stocks from the portfolio. We sold Walgreens Boots Alliance (WBA) primarily on deteriorating underlying fundamentals. Highly profitable COVID vaccines and sale-leaseback transactions have masked deterioration in WBA's core business. A large, transformative acquisition and increasing leverage added to our concerns. We exited the position at a small gain from our initial purchase price. We also sold Curtiss Wright (CW) based on valuation. We think CW has some unique qualities as a hybrid industrial-defense business with exposure to a potential nuclear power revival. That said, during the early stages of Russia's invasion of Ukraine, valuations across the defense industry expanded significantly, which drove our decision to sell the position.

As a reminder, we build portfolios from the bottom up, one stock at a time, with an overall goal of constructing diversified portfolios designed to perform in and protect against a range of market and economic outcomes. For instance, at current weights, we consider 48% of our representative MCV portfolio to have low economic sensitivity. The remaining 52% is invested in more economically sensitive stocks, though diversified across multiple fundamental drivers.[14]

Regardless of economic sensitivity, we first and foremost seek out high-quality companies selling at reasonable valuations, going where value leads us. Quality, valuation, and diversification is a formula that has worked well for us over our long history. While this approach has featured periods of ***relative*** underperformance (though it still tends to deliver good ***absolute*** returns), it has excelled in the aftermath of periods of market exuberance. Applied consistently since inception, we have produced more stable returns with a narrower range of outcomes versus benchmark indexes while outperforming them over the long run.

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

Investment Team

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Robert Ladyman, CFA   Thomas Knapp, CFA

Disclosures

[1]*Duguid, Kate, Rovnick, Naomi, and Lockett, Hudson. "US stocks suffer sharpest first-half drop in more than 50 years." June 30, 2022. https://www.ft.com/content/abb8a9f6-e57f-4a54-bb17-14a2c489831f. 1 July 2022.*

[2]*@lisaabramowicz1. "H1 Total Returns of US 10-yr Treasury (or Proxy) index. The worst H1 since 1788!" Twitter, 1 July 2022, 4:34 a.m., https://twitter.com/lisaabramowicz1/status/1542832041078800386/photo/1.*

[3]*Data Source: Morningstar Direct℠. Annual first six months gross* performance of EIC MCV SMA composite since inception through June 30, 2022.*

[4]*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.

[5]*Data Source: Morningstar Direct℠. Performance attribution for EIC MCV representative portfolio versus Russell Midcap Value from January 1, 2022 through June 30, 2022.*

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.

[6]*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 June 30, 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.*

[7]*Data Source: Morningstar Direct℠. Annualized returns of Russell 3000 Growth, Russell 3000 Value, and S&P 500 from January 1, 1979 through June 30, 2022 were 11.3%, 11.6%, and 11.8%, respectively.*

[8]*Data Source: S&P Capital IQ^PRO. Daily returns and next 12-months (NTM) forward P/ E of the Russell 3000 Growth Index and Russell 3000 Value Index from December 31, 2016 through June 30, 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 is 47% higher. Fundamental Return: Total return divided by the NTM forward PE multiple. Fundamental return of the Russell 3000 Growth Index relative to the Russell 3000 Value Index, indexed to January 1, 2017 is 2% less.*

[9]*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 June 30, 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 June 30, 2022 indicates 4–6% per year historical underperformance of growth versus value at a 14–15x valuation premium of growth over value.*

[10]*Russell 3000 Growth Index forward operating margins calculated as index-weighted forward operating income divided by index-weighted forward revenue, using NTM analyst estimates, from June 30, 2005 through June 30, 2022. Range 12.4–18.4%; average 15.2%; current 17.1%.*

[11]*Includes stock-based compensation and related tax expense. Data Source: DocuSign Inc. Form 10-K, 2022, 2021. https://www.sec.gov/Archives/edgar/data/1261333/000126133322000049/000126133322000049/0001261333-22-000049-index.htm and https://www.sec.gov/Archives/edgar/data/1261333/000126133321000059/0001261333-21-000059-index.htm. 7 July 2022.*

[12]*(Left chart) Price to forward earnings ratio for the Russell 3000 Software Industry excluding Microsoft, calculated using forward GAAP earnings per share (orange line) and forward non-GAAP earnings per share (blue line).*

(Right chart) The percentage difference between non-GAAP earnings per share and GAAP earnings per share for the Russell 3000 Software Industry excluding Microsoft. Data is calculated monthly on an index-weighted basis from January 31, 2005 to June 30, 2022.

[13]*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.

[14]*As of June 30, 2022 for the MCV representative portfolio. Low economically sensitive categories include the total percentage of cash plus stocks held in healthcare, consumer staples, utilities, and insurance. More economically sensitive categories include the total percentage of stocks held in banks, financial services, energy, media, industrials, consumer discretionary, materials, and real estate.*

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 6/30)	-4.4%	-5.8%	-16.2%	19.6%	22.4%	0.1%	12	$3.2	$2,145.3	$2,052.4	$4,197.7
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 March 31, 2022. 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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