EQUITY INVESTMENT CORPORATION

Mid-Cap Value

2023 First Quarter Commentary

April 2023

Except for a couple of small-cap indexes, stocks posted gains in the first quarter. The table below shows our Mid-Cap Value (MCV) SMA composite results for the first quarter and longer term.

	For the periods ended March 31, 2023				
	Q1	**1 Year**	**5 Year**	**10 Year**	**SI***
EIC MCV SMA Gross	-2.4%	-5.0%	8.5%	10.1%	10.2%
EIC MCV SMA Net	-3.1%	-7.8%	5.3%	6.8%	7.0%
Russell Midcap® Value Index	1.3%	-9.2%	6.5%	8.8%	9.0%

*Table 1 Data Source: Morningstar Direct℠. Returns for periods greater than one year are annualized. *Since inception (SI): January 1, 2004. Past performance does not guarantee future results. See footnote 1.*

In the first quarter, our shortfall versus the Russell Midcap Value index was attributable primarily to our overweight in financials and our underweight in information technology. The March failures of Silicon Valley Bank (SIVB) and Signature Bank (SBNY) led to sharp declines across financials. However, we believe these failures were largely idiosyncratic and not indicative of broader issues in banking. SIVB and SBNY were highly concentrated in uninsured deposits and had taken on excessive duration risk in seeking yield on their portfolios, leaving them uniquely vulnerable. While all banks are dealing with the impact of rising rates on securities portfolios, it is largely a manageable problem that should have been anticipated. The banking system in general — and our bank holdings in particular — are well diversified with generally conservative underwriting, ample sources of capital to absorb credit losses, and liquidity to meet any deposit migration. In fact, the health of the banking industry is dramatically better than in 2008, yet valuations are attractive by historical standards.

Market Environment

Economic signals remain mixed. Some forecasts are for continued growth, but an inverted yield curve points to an eventual slowdown and perhaps a recession. Interest rate and inflation expectations have moderated somewhat but remain elevated compared to the recent past. Against this backdrop, the first quarter of 2023 can best be described as a “worst to first” market — an inverse relationship existed between a stock’s performance last year and its performance in the first quarter. The following table shows the Russell 3000 Index returns by quintile of performance.

	2022 Return	Q1 2023 Return	Forward P/E
Quintile 5 (2022 Worst Performers)	< -51.2%	37.3%	79x
Quintile 4	-51.2% to -29.7%	18.8%	25x
Quintile 3	-29.7% to -13.0%	10.3%	19x
Quintile 2	-12.9% to 5.4%	1.2%	17x
Quintile 1 (2022 Best Performers)	> 5.4%	-3.3%	14x
Russell 3000® Index	**-19.2%**	**7.2%**	**19x**

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

Many of the expensive stocks that fell the most last year have rallied the most this quarter. Loss-making companies provide one of the more egregious examples — after declining 51% last year, they were among the market's better performers in the first quarter.[3] Given the recent bank failures and increasing concerns about a recession, we would expect investors to prefer profitable companies. For now, however, it appears that the risk-on trade is back in favor.

It has become second nature for investors to "buy the dip" after stock declines. In the long run, stocks go up, and all else being equal, declines should result in more attractive purchase prices. Since 1929, the S&P 500 Index has posted a negative return in 26 calendar years. In 17 of those years, the market rebounded and was positive the following year. Therefore, buying the dip was the correct course of action in most cases. Still, the exceptions were notable — stocks declined for multi-year periods in 1929–32, 1939–41, 1973–74, and 2000–02.[4] All featured markets with some combination of significant overvaluation, earnings weakness, or macroeconomic shocks (war or inflation).

With this in mind, we note that valuations for growth stocks remain very high relative to history, as seen in the chart below.

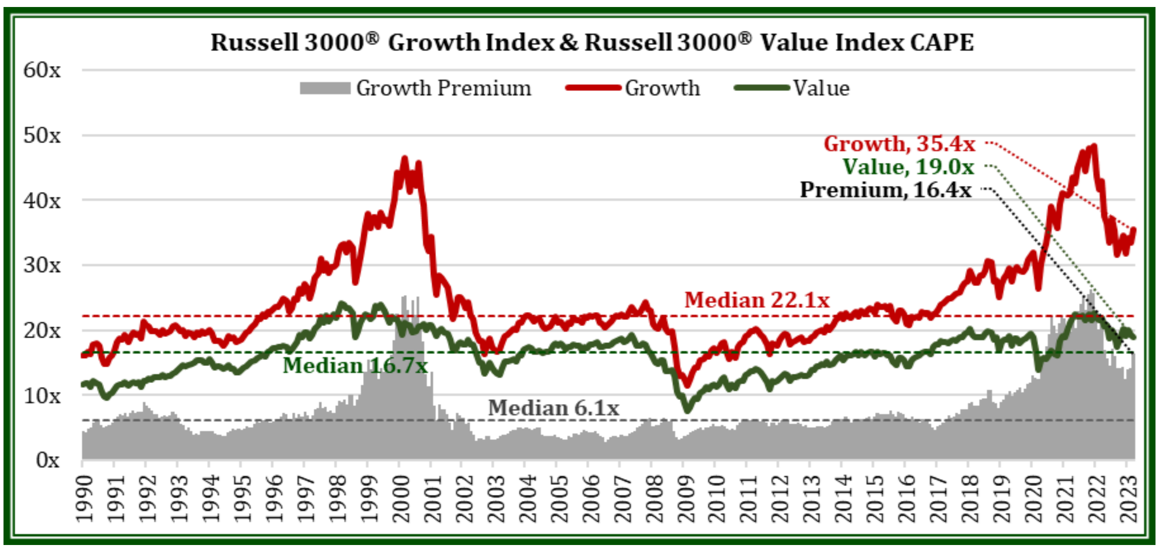

Chart 1 Data Source: S&P Capital IQ^PRO^. See footnote 5.

Over the last 30+ years, growth stocks have only been this expensive going into or coming out of valuation bubbles. At these respective valuation levels, history suggests value could outperform growth by 5–7% ***per year*** for the next decade.[6]

The absolute return expectations for value and growth are also notable. As shown in the next charts, at current valuation levels, value stocks have historically delivered reasonable yearly returns in the mid-to-high single digits. In contrast, growth stocks have produced minimal to negative returns. Moreover, we believe our odds of outperforming the value index from here seem better than usual as we continue to find pockets of attractive investment opportunities within the value universe.

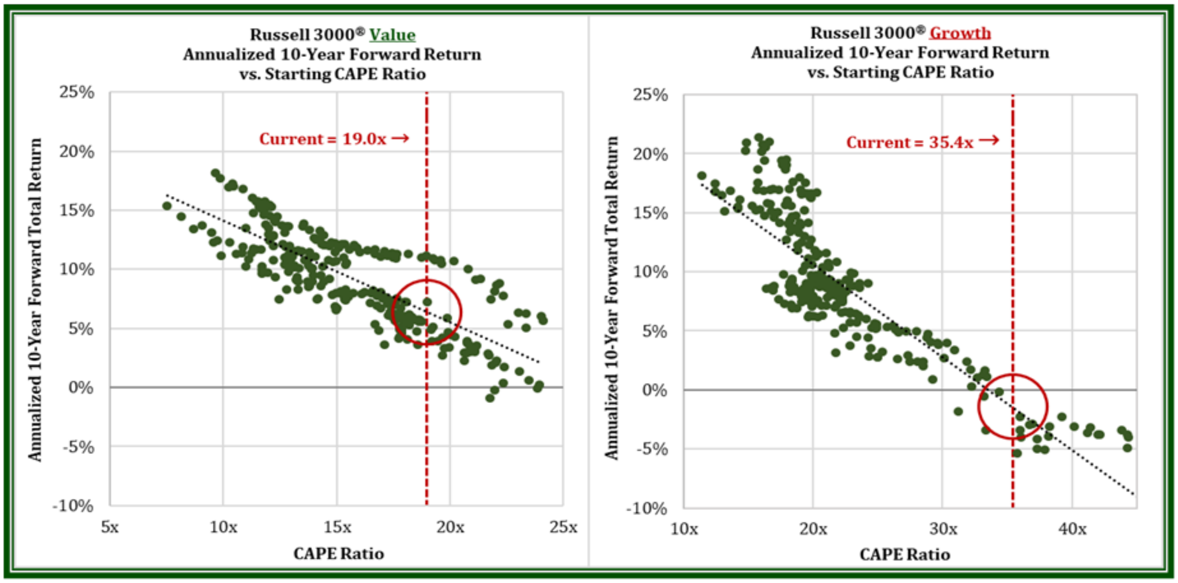

Chart 2 Data Source: S&P Capital IQ PRO. See footnote 7.

Compounding the high hurdle of starting valuations, estimates of earnings growth continue to trend downward and are now modestly negative for the full-year 2023.[8] Accordingly, our portfolios continue to tilt heavily toward well-capitalized, high-quality value stocks that offer reasonable return prospects amid an uncertain and overvalued market environment.

Portfolio Review[9]

The current disparity between growth and value stocks continues to offer attractive investment opportunities, even in the midst of an overall market that is richly priced. As seen below, certain sectors remain especially cheap compared to their history, while others are quite expensive.

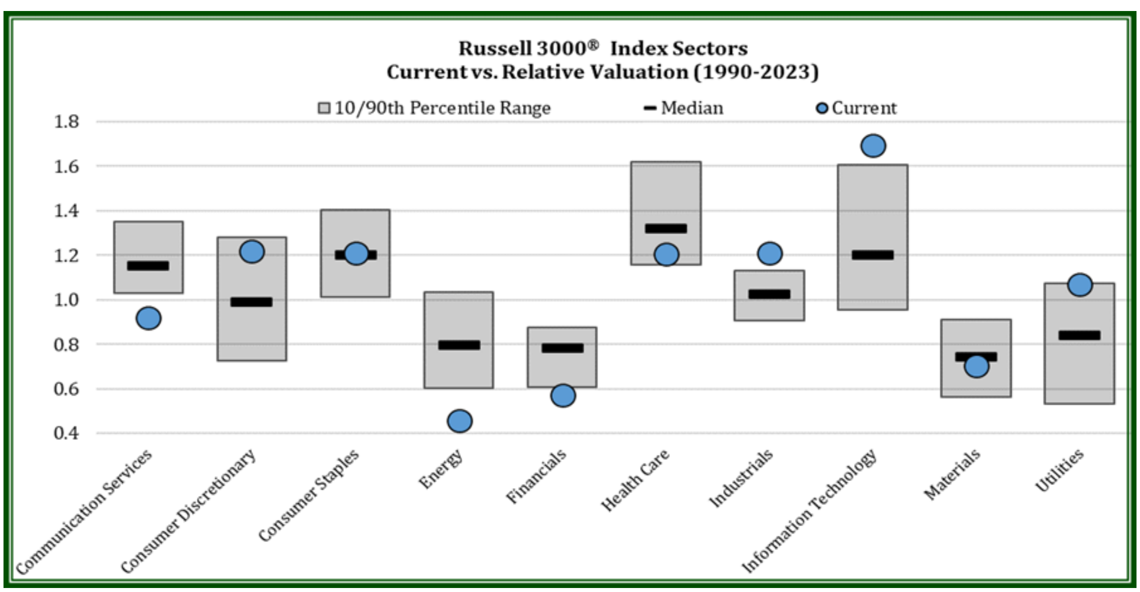

Chart 3 Data Source: S&P Capital IQ PRO. See footnote 10.

We remain overweight in financials, consumer staples, and energy, while our largest underweights are in industrials, information technology, and consumer discretionary. (An index reclassification during the quarter resulted in Global Payments moving from information technology to financials, amplifying our respective under/overweight in those sectors.)

During the quarter, we sold our position in Warner Brothers Discovery (WBD). Our sale was not based on valuation but rather fundamental disappointment coupled with an increasing debt burden.

We purchased a 2% position in Barrick Gold (GOLD) in February. We have owned small positions in our All- and Large-Cap portfolios since March 2021. In fact, this is the second time we have owned GOLD in our portfolios. Today, it is a more conservative company than in our prior period of ownership from 2008 to 2015. Barrick has reduced net debt to near zero, has a solid investment-grade credit rating, continues to focus on expense management, and has a more diversified, high-quality, and geographically stable resource base. Importantly, Barrick has among the lowest production cost profiles in the industry, which both creates opportunity for strong upside if commodity prices rise but also protection on the downside if they fall. We believe GOLD is attractively priced, and we are not paying up for the option of future strength in gold prices, as has often been the case in its history.

We also took advantage of the market volatility by adding to and trimming from a few holdings. We trimmed Tesco (TSCDY) and Paramount (PARA) after they rose early in the quarter. We added to Comerica (COM), a regional bank, and National Fuel Gas (NFG), a diversified energy company focused on natural gas storage and transportation, based on valuation.

Aside from valuation risk, there remains, in our view, a pervasive and perhaps long-lasting hangover in the market. The last decade-plus of low interest rates led to low stock-market volatility and bred complacency, which encouraged risk-taking. From poorly run banks blowing up due to liquidity mismatches to outright fraud in cryptocurrencies and fintech, recent accidents all seem to have a common cause. Opportunistic management teams eschewed traditional risk management or, emboldened by poor regulatory oversight, bent and sometimes broke the rules to succeed. In a quest for gains in a low-rate environment, investors often rewarded them for doing so. Many of these problems cannot be simply or quickly fixed, and the remedies will have far-reaching consequences. With higher rates and a fragile economy, opportunity costs have become more meaningful, so scrutiny from investors and regulators alike will increase. Due diligence is coming back in favor and will be critical for success. As Warren Buffett said, “You only find out who is swimming naked when the tide goes out.”[11]

As always, we strive to construct portfolios designed to minimize the prevalence and impact of significant investment mistakes. We do so by attempting to avoid investing in businesses that are overly expensive, in secular decline, use aggressive accounting practices, or have too much leverage. Rather, we seek out high-quality companies diversified across a range of economic outcomes. Importantly, each company’s stock is priced based on reasonable assumptions to deliver good absolute returns. In this regard, we pay little attention to the overall market, instead building portfolios from the bottom up, one stock at a time. As currently constructed, our Mid-Cap portfolios have attractive characteristics, trading at roughly 12x trailing earnings, with a 16% return on equity, expected long-term earnings growth in the double-digits, and a weighted average credit rating in the BBB+ to BBB range. [12], [13]

Firm Update

We are pleased to announce two additions to our firm over the last few months, both of whom will support our investment team. Allen White joins us as a client portfolio manager from Great Lakes Advisors and, before that, Raymond James Financial. Allen will help manage client relationships and communicate our investment strategy to interested parties. Mitchell Gentry joins us as a research analyst from Reagan Consulting, where he provided financial advisory services to the insurance brokerage industry. Prior to that, he was a consumer and retail investment banking analyst at Jefferies. Mitchell will conduct company-specific research on our existing holdings and prospective investments. Both are welcome additions to our team and will strengthen our investment research and client communication efforts. We are fortunate to have them join us.

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

Investment Team

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

Robert Ladyman, CFA   Thomas Knapp, CFA

Disclosures

[1]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. Net returns are calculated by reducing gross returns with an assumed maximum annual SMA fee of 3.0%, applied monthly. SMA fees include transaction costs, portfolio management, custody, and other administrative fees. Platform sponsor fees may vary. SMA fee schedules are provided by independent SMA platform sponsors and are available upon request from the individual sponsor. 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. Performance data is historical. Current performance may be lower or higher than the performance quoted. Individual client portfolio results may vary. Investing involves risk including possible loss of principal.

[2]Forward Price/Earnings (P/E), 2022 annual and first quarter 2023 total return of Russell 3000 Index constituents. Constituents that were public for all of 2022 are divided equally into 5 buckets by annual total return as of December 31, 2022. For each bucket 2023 total return metrics and forward P/E are calculated as of March 31, 2023 on an index-weighted basis using weights at December 31, 2022.

[3]Data Source: S&P Capital IQ[PRO]. Loss-making companies are Russell 3000 Index constituents that were expected to be unprofitable over the next 12 months from January 1, 2022 and produced an index-weighted -51% total return for 2022. Constituents that were expected to be unprofitable over the next 12 months from January 1, 2023 produced an index-weighted 13% total return for Q1 2023.

[4]Data Source: S&P Capital IQ[PRO]. Annual returns calculated from quarterly price returns of the S&P 500 for January 1, 1929 through December 31, 1936 and quarterly total returns for January 1, 1937 through March 31, 2023.

[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, 2023. 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]Russell 3000 Growth modified CAPE premium over Russell 3000 Value modified CAPE at each month-end January 31, 1990 to March 31, 2013, plotted against the subsequent annualized 10-year total return difference between the Russell 3000 Growth and Russell 3000 Value for each month-end January 31, 2000 through March 31, 2023. At March 31, 2023 relative valuation levels (growth premium over value of 16.4x) history suggests value could outperform growth by 5% to 7% per year over the next 10 years.

[7](Left Chart) Russell 3000 Value Index modified CAPE at each month-end January 31, 1990 to March 31, 2013, plotted against the subsequent annualized 10-year total return of the Russell 3000 Value for each month-end January 31, 2000 through March 31, 2023.

(Right Chart) Russell 3000 Growth Index modified CAPE at each month-end from January 31, 1990 to March 31, 2013, plotted against the subsequent annualized 10-year total return of the Russell 3000 Growth for each month-end January 31, 2000 through March 31, 2023.

[8]Data Source: S&P Capital IQ[PRO]. Monthly trend of S&P 500 Aggregate Bottom Up earnings per share estimates for 2023 from September 6, 2022 through April 4, 2023.

[9]Actual portfolio holdings may vary for each client, and there is no guarantee that a particular client's account, SMA 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.

[10]Russell 3000 Index sector valuation relative to Russell 3000 Index valuation based on constituent price to prior three-year peak earnings for month-end periods from January 31, 1990 to March 31, 2023. Real Estate sector excluded.

[11]Buffett, Warren E., Chairman's Letter, 28 February 2002. Berkshire Hathaway Inc. Annual Report 2001. https://www.berkshirehathaway.com/ 2001ar/2001letter.html.

[12]Data Source: Morningstar Direct℠ as of March 31, 2023. Weighted average trailing twelve-month P/E Ratio, trailing twelve-month return on equity, and estimated 5-year long-term earnings growth for EIC MCV representative portfolio, as calculated by Morningstar.

[13]Data Source: S&P Capital IQ[PRO] as of March 31, 2023. Weighted average credit-quality rating of underlying securities within the representative MCV portfolio and not the portfolio itself. 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.

Equity Investment Corporation
Mid-Cap Value SMA Composite Report

As of 3/31/2023	1 Year	5 Year (annualized)	10 Year (annualized)	Since Inception** (annualized)
Gross Rate of Return[1] (Supplemental)	-5.0%	8.5%	10.1%	10.2%
Assumed 3% Annual Fee Net Rate of Return[1]	-7.8%	5.3%	6.8%	7.0%
Benchmark Return of Russell Midcap® Value Index	-9.2%	6.5%	8.8%	9.0%

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).
**Inception Date: January 1, 2004

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 tables.

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.

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 Fee 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)
2023 (through 3/31)	-2.4%	-3.1%	1.3%	18.0%	19.8%	0.5%	11	$3.4	$2,459.9	$2,346.1	$4,806.0
2022	3.0%	0.0%	-12.0%	21.3%	24.4%	0.3%	10	$3.3	$2,392.5	$2,267.8	$4,660.4
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 *(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, 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).

London Stock Exchange Group plc ("LSE Group") is the source and owner of FTSE Russell index data. FTSE Russell is a trading name of certain of the LSE Group companies. "Russell®" is a trade mark of the relevant LSE Group companies and is used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication. FTSE Russell Index information is sourced via S&P Capital IQ^{PRO}.