EQUITY INVESTMENT CORPORATION

Mid-Cap Value

2023 Third Quarter Commentary

October 2023

Stocks ended the quarter lower. The table below shows our Mid-Cap Value (MCV) SMA composite results for the third quarter and longer term. We outperformed the Russell Midcap® Value Index (RMCV) in the third quarter. We also topped our benchmark over the one-, five-, and ten-year periods, as well as since inception.

	For the periods ended September 30, 2023					
	Q3	**YTD**	**1 Year**	**5 Year**	**10 Year**	**SI***
EIC MCV SMA Gross	-2.1%	-0.1%	12.2%	8.0%	9.5%	10.1%
EIC MCV SMA Net	-2.9%	-2.4%	8.9%	4.8%	6.3%	6.8%
Russell Midcap® Value Index	-4.5%	0.5%	11.0%	5.2%	7.9%	8.7%

*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.*

Investment Environment

The third quarter decline was relatively moderate in the equity markets. Value held up slightly better than growth, with energy and financials the only sectors in the RMCV with positive returns.[2]

Looking at the first nine months of the year, the conditions and themes we noted in our second-quarter commentary remain intact. Growth stocks have strongly outperformed value stocks this year, a "worst to first" reversal from 2022 when value was in favor. Within the growth universe, performance continues to be highly concentrated, largely driven by the "magnificent seven" mega-cap companies (Apple, Microsoft, Alphabet, Amazon, Tesla, Meta Platforms, and NVIDIA). Year to date, these companies represented nearly 25% of the market value of the S&P 500® Index (S&P 500) and 40% of the market value of the Russell 3000® Growth Index. Further, they accounted for approximately 85% of the year-to-date return of the S&P 500 and 73% of the year-to-date return of the Russell 3000 Growth Index.[3]

As shown in the following chart, valuations for growth stocks remain elevated, while value stocks are more reasonably priced.

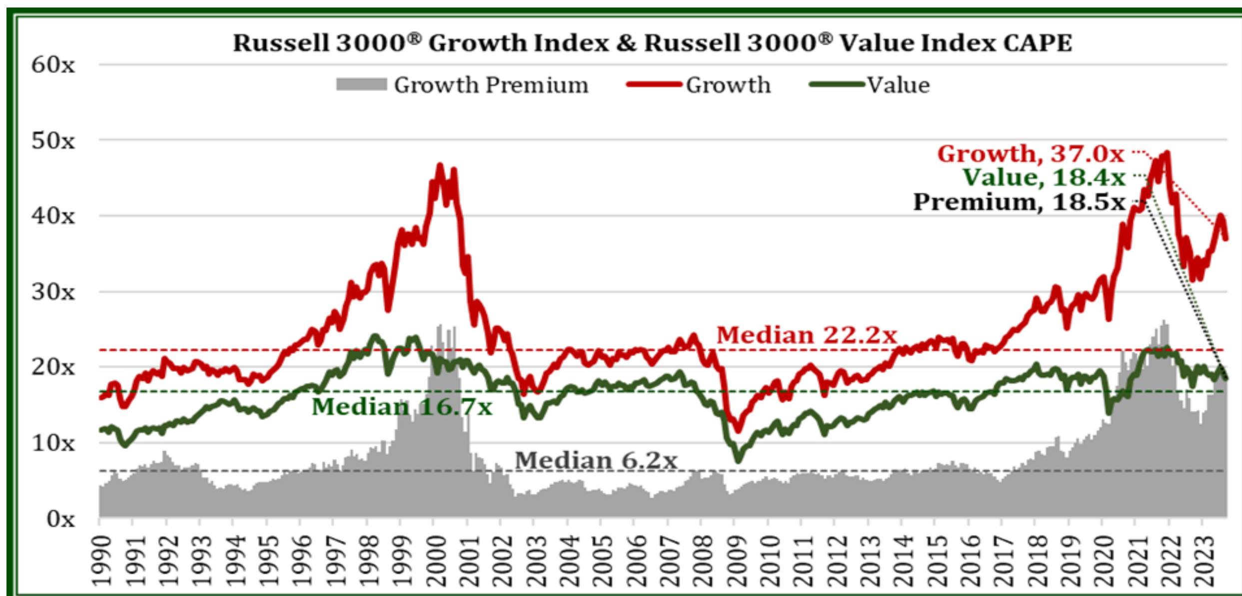

Chart 1 Data Source: S&P Capital IQ[PRO]. See footnote 4.

While the quarter's equity decline was relatively mild, bonds told a different story. Despite the Federal Reserve only raising short-term interest rates once by 25 basis points and a continued moderation in inflation, 10-year Treasury yields rose nearly 100 basis points to 4.8%. Though that is close to their long-term average, it is a significant increase from 2020 lows of 0.5%.[4] Consequently, 10-year Treasury prices have fallen almost 23% from August 2020, the worst bond rout in U.S. history.[5] Theories abound for this outsized drop. Perhaps the bond market thinks that, despite recent moderation, longer-run inflation will remain elevated. Maybe the bond market believes the Fed has indeed engineered a soft landing, and the economy will avoid recession and re-accelerate. It's also possible that the rise in yields reflects the bond market finally coming to terms with the fiscal situation in the U.S., with sustained deficits, mounting debt, and continued dysfunction, with a possible government shutdown looming in November. Or it may be a simple supply/demand issue, with the Federal Reserve no longer a net buyer of longer-dated Treasuries coupled with an increased supply to fund deficits.

Regardless of the cause or their ultimate endpoint, higher yields are having an impact. Borrowers seeking out new loans at today's rates have less purchasing power and higher servicing costs than they enjoyed a few years earlier. For well-capitalized consumers and businesses, this represents an unwelcome and inconvenient but manageable headwind. But for any company overly reliant on borrowing at low rates for the past decade, this steep increase could represent an existential threat. For equity investors, higher rates act as an opportunity cost both explicitly, as savers can now earn reasonable returns in fixed income, and implicitly, as higher rates increase discount rates for riskier assets which should reduce valuations, particularly for richly priced stocks. Yet, there remains a curious complacency on the part of equity market participants. In particular, growth stocks, expensive by history and with limited near-term earnings growth, remain largely unfazed by the continued rise in rates.

Over the long term, our outperformance compared to market indexes is often attributable to what is ***not*** in our portfolio. That is, our value-added frequently comes from avoiding the worst excesses of the market. Today, that's overly indebted companies and high-priced growth stocks. Both theoretically made more sense in a world of low interest rates, but neither is adequately prepared for a sustained period of higher rates. In fact, to justify their survival (in the case of over-indebted companies) or their valuations (in the case of growth stocks), they may need rates to return to the historically low levels of the prior decade.

Though we think that is unlikely, we don't attempt to forecast macroeconomic factors like interest rates or inflation. It's not in our skill set, and we don't believe predictions like these can be made with low enough error rates to justify basing investment decisions on them. Rather, we build portfolios from the bottom up, one stock at a time. We are simply trying to find good businesses trading at reasonable prices while simultaneously avoiding areas of excess.

Portfolio Review[6]

Our portfolio continues to tilt toward stocks classified as value. As shown in the chart below, however, we have recently increased our exposure to more stocks designated as core, and they now represent over 50% of the portfolio, our highest weighting in 15 years. Partly, this is a function of periodic style reclassifications. Still, many of our recent purchases have been in the core space, including some of our new purchases during the quarter, discussed later. Without inferring too much into causes, it seems that stock market volatility during and after COVID continues to offer up reasonably priced, high-quality companies with above-average growth prospects. Compared to the relative scarcity of such reasonable opportunities pre-COVID, we view this as a welcome development.

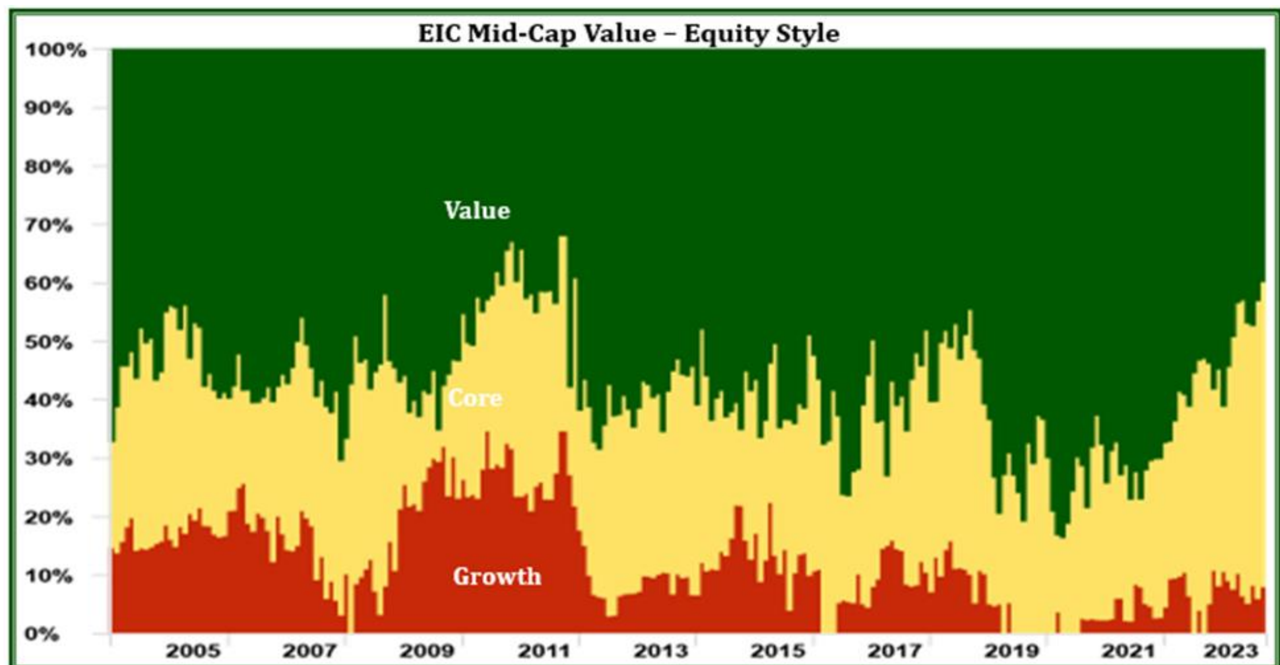

Chart 2 Source: Morningstar Direct℠. Based on the percentage of equity holdings grouped into value, growth, and core categories as defined by Morningstar. See footnote 7.

As seen in the next chart, there are pockets of attractive opportunities in the market. Energy and financials are trading at the low end of their historic valuations compared to the market and represent our largest overweights. Conversely, information technology is nearly as expensive as ever compared to the market and represents one of our largest underweights.

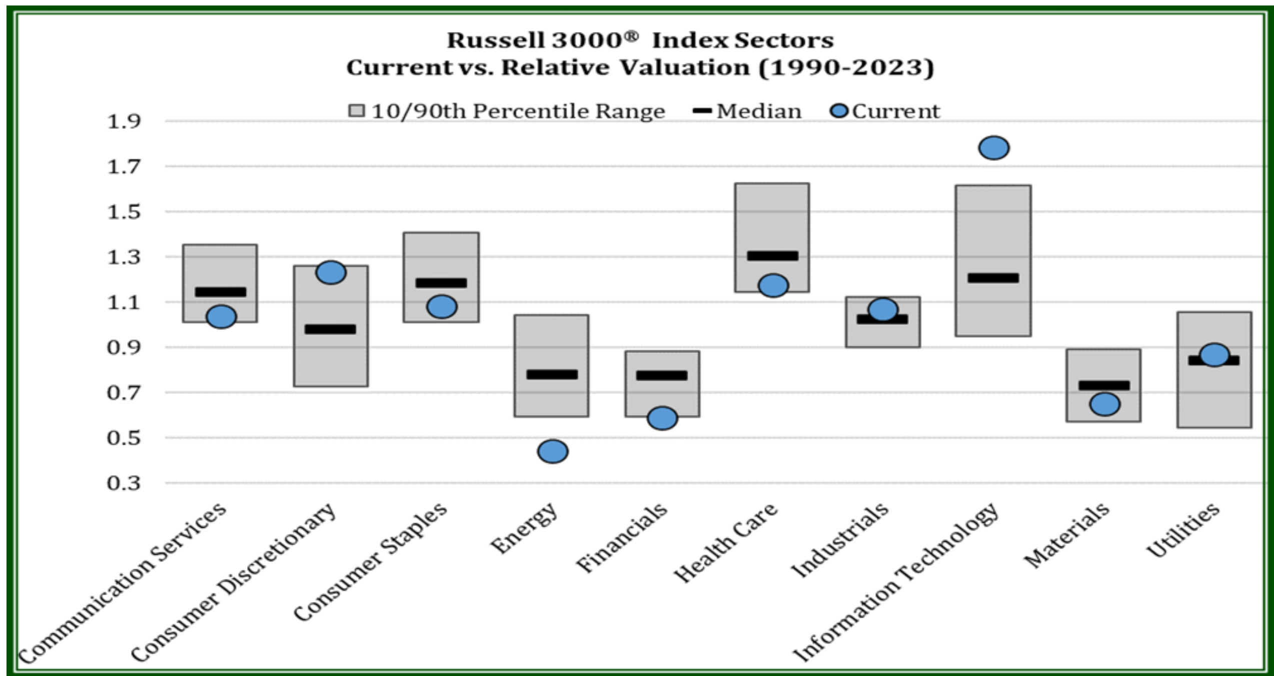

Chart 3 Data Source: S&P Capital IQ^{PRO}. Real Estate sector excluded. See footnote 8.

Energy companies are benefiting from favorable supply/demand dynamics coupled with shareholder-focused managements. While higher inflation and energy prices should further help our companies, we still have investment upside at oil prices well below current levels. Our focus in energy is on diversified companies with -quality balance sheets that can withstand energy market adversity.

Similarly, most of our banks have performed poorly this year. There remains an overhang from the bank deposit crisis in the first quarter of this year, along with fears around interest rate increases and their impact on unrealized losses on longer-dated mortgage bond portfolios. We view these issues as manageable and not as industry-wide threats. In fact, higher interest rates should ultimately benefit our banks through increased net interest margins and earnings power. And importantly, valuations already price in a significant amount of pessimism, with banks trading at similar valuations to those seen during the 2008-2009 financial crisis.

During the quarter, in addition to a few adds and trims, we purchased three new stocks – Dollar General, Gildan Activewear, and NNN REIT. We also sold out of small positions in Constellation Energy on valuation and Empire State Realty Trust on quality concerns. The net result of these trades was a decrease in cash at quarter end to 8.6% in our representative MCV.

We completed the purchase of a 2% position in Dollar General (DG) in August. The company operates approximately 19,500 stores in primarily rural locations across 47 states, making it the largest retailer in the United States by store count. Historically, about 75% of revenues have been generated from the sale of staples such as food, paper, and cleaning products, with the remainder from higher-margin seasonal merchandise, home décor, and basic apparel. After an uptick during the pandemic, sales growth has decelerated in recent quarters. Inflation pressures have had an outsized impact on low-income consumers, who make up the majority of the company's customer base. With its customers under stress, the sales mix has shifted further toward low-margin consumable items while supply chain and labor costs have increased. As a result of these pressures, management lowered full-year guidance, and shares have fallen nearly 50% in the past year to now trade at a very reasonable valuation on both an absolute and relative

basis. The stock continued to fall after our initial purchase, but we view the fundamental challenges as temporary while the long-term case for DG remains intact. It is a high-quality business with growth prospects, strong returns on equity and cash flows, and a reasonable capital structure.

We also acquired a 2.0% position in Gildan Activewear (GIL). The company manufactures a collection of competitively priced basic apparel products. The majority of revenues are derived from the sale of t-shirts, sweatshirts, and sweatpants to large retailers and distributors, who subsequently sell blank Gildan activewear to a fragmented group of screen printers. Over the past few years, demand has been impacted by a COVID-driven disruption in corporate events as well as customer inventory management actions, while inflationary pressures have shifted its mix toward lower-priced products. However, GIL continues to hold a dominant position in the North American activewear market, accounting for more than two-thirds of sales to U.S. distributors. As a result of its focused distribution strategy, the company incurs significantly lower SG&A expenses than peers marketing directly to end consumers (e.g., HanesBrands). The company has a track record of above-market growth, efficient operations, and attractive returns on equity. Further, it is modestly levered and is committed to annual share repurchases. Shares trade at approximately 12x our view of normalized earnings and pay a 2.5% dividend yield.

Lastly, we purchased a 1.5% position in NNN REIT (NNN). NNN is a mid-cap real estate investment trust that owns approximately 3,500 single-tenant retail properties in the United States. Most properties (~70%) are acquired through sale-leaseback transactions, and the remaining (~30%) are purchased at auctions. Leases are normally triple-net — tenants are responsible for all property expenses, including utilities, taxes, insurance, and maintenance, which allows NNN to generate a more predictable cash flow. Occupancy is typically quite high (99% currently; minimum 96% in 2009) due to long leases (15-20 years at inception; 10-year remaining average term) and a propensity to sell vacant properties. As a result of this model, cash earnings have been reasonably stable even in more strained economic environments. The REIT has a strong balance sheet, with a 12-year weighted average debt maturity and a BBB+ credit rating.[9] Shares have declined more than 20% from their 52-week high, and they now trade at a 30% discount to their 10-year median valuation. It pays approximately 70% of its cash earnings as a dividend, currently a 6.0% yield, and has increased its dividend for 34 consecutive years.

At quarter end, our portfolio, on a weighted average basis, trades at less than 11x trailing and forward earnings with a return on equity of 19%, a dividend yield of 3.2%, and a credit rating of BBB-BBB+.[10] It is reasonably diversified across sectors but tilted towards those areas that offer the best current intersection of quality characteristics at reasonable valuations. Amid an overall equity market that looks expensive, we believe our portfolio has good odds of earning reasonable investment returns regardless of market outcomes.

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]Data Source: Morningstar Direct℠. Q323 returns of Russell Midcap Growth and Russell Midcap Value Indexes were -5.22% and -4.46%, respectively. Energy and Financials sectors returned 12.57% and 1.04% in the Russell Midcap Value Index.

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]Data Source: Morningstar Direct℠. Performance attribution for Russell 3000® Growth Index versus Russell 3000® Value Index and SPDR® S&P 500 ETF (SPY) versus Russell 3000 Value Index for the year-to-date September 30, 2023. Sum of the average weight of each stock in each respective index and the weighted return contribution of each stock to the year-to-date return of each respective index.

[4]Board of Governors of the Federal Reserve System. Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DGS10, 6 October 2023.

[5]Source: Kessler, Andy. "Beware Market Complacency." October 15, 2023. https://www.wsj.com/articles/beware-market-complacency-as-war-brings-uncertainty-bfbf75d4. 16 October 2023.

[6]References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities. Any specific securities described herein do not represent all securities purchased, sold, or recommended for advisory clients. Actual portfolio holdings 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. It should not be assumed that any of the securities or recommendations made will be profitable or will equal the performance of the listed securities.

[7]Portfolio data is from monthly representative Mid-Cap Value portfolios from December 31, 2003 through September 30, 2023. Value, growth, and core categories are based on Morningstar's robust methodology that includes forward-looking and historical components and 10 different factors to measure value-growth orientation.

[8]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 September 30, 2023.

[9]Data Source: S&P Capital IQ[PRO] as of September 30, 2023. 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.

[10]Data Source: Morningstar Direct℠ as of September 30, 2023. Weighted average trailing twelve-month P/E Ratio, forward P/E Ratio, and trailing twelve-month return on equity for EIC MCV representative portfolio, as calculated by Morningstar.

Data Source: APL Systems as of September 30, 2023. Dividend yield for EIC MCV representative portfolio.

Data Source: S&P Capital IQ[PRO]. Weighted average of S&P credit-quality ratings on underlying securities held in the representative EIC MCV portfolio on September 30, 2023, and not the portfolio itself.

Equity Investment Corporation
Mid-Cap Value SMA Composite Report

As of 9/30/2023	1 Year	5 Year (annualized)	10 Year (annualized)	Since Inception** (annualized)
Gross Rate of Return[1] (Supplemental)	12.2%	8.0%	9.5%	10.1%
Assumed 3% Annual Fee Net Rate of Return[1]	8.9%	4.8%	6.3%	6.8%
Benchmark Return of Russell Midcap® Value Index	11.0%	5.2%	7.9%	8.7%

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 9/30)	-0.1%	-2.4%	0.5%	18.2%	19.6%	0.4%	12	$3.5	$2,497.1	$2,367.7	$4,864.8
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 June 30, 2023. 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}.

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