

Quarterly Commentary: First Quarter 2019

Highlights:

- The first quarter of 2019 saw a complete reversal of the fear and pain experienced during the preceding quarter. Investors, invigorated by fresh buying opportunities, drove markets higher across the globe.
- The U.S. Economy remains fundamentally sound, driven by healthy consumer demand, satisfactory business investment and a healthy financial sector offering affordable borrowing costs.
- While we remain bullish on the underpinnings of our strong economy, we're aware of the effects of tight credit spreads, significant amounts of dry powder chasing deals, and the loosening of credit standards, covenant protections, etc.

Equity Markets Review

RICHARD L. CHILTON, JR, Chairman & Chief Investment Officer – Equities
JENNIFER L. FOSTER, Co-Chief Investment Officer & Portfolio Manager– Equities

Market Commentary

The stock market bears went into hibernation during the first quarter of 2019 as if their three month reinvigoration was simply a bad dream. The reversal of negative rhetoric surrounding the potential trade war with China, slowing domestic GDP growth and the clarification by the Federal Reserve of its interest rate policy all had a hand in sparking renewed interest in equity ownership and proved to be the match on a very cheap powder keg of global equities.

Our investment strategy of owning high quality business models for the long term and not renting stocks allowed us to take advantage of some very attractive equity valuations during December. This certainly helped us in the first quarter. To have the patience to buy when others are selling is an important tool in our investing toolbox.

One name that we increased during December is a software company that we have loved for a while. The stock's valuation always seemed full and it rarely gives you the chance to buy it at the right price. As the old adage goes, there are only two things in life that are certain – death and taxes. This company sells the leading Do-It-Yourself tax preparation software that has proven to be a steady and nicely profitable business. They also sell the leading accounting software for small businesses. Over the

last 5 years, the company has successfully transitioned its software products to a cloud based, subscription model and has launched in several foreign countries. Both of these initiatives have accelerated the revenue growth of the company as well as its profitability.

Last year, we were impressed with the company's ability to improve sales growth of its tax software by rolling out a new feature on a limited basis that enabled customers the ability to talk to a live tax preparer for a fee while using their software. This has the dual benefit of generating more revenue growth and attracting more tax filers to a Do It Yourself product.

We are excited to see what this new feature can do during this current tax season now that it is more widely available. This company is the hallmark of a high quality business model with well-established brands, an innovative culture that never rests, Board Room DNA that regularly returns excess cash to shareholders through dividends and buybacks, and we were thrilled to be able to buy a lot more of the stock last quarter at reasonable valuations. As positive reviews of tax season have rolled in, the stock has not surprisingly rebounded and recently made a new high. We look forward to owning this company for years to come.

Investment Outlook

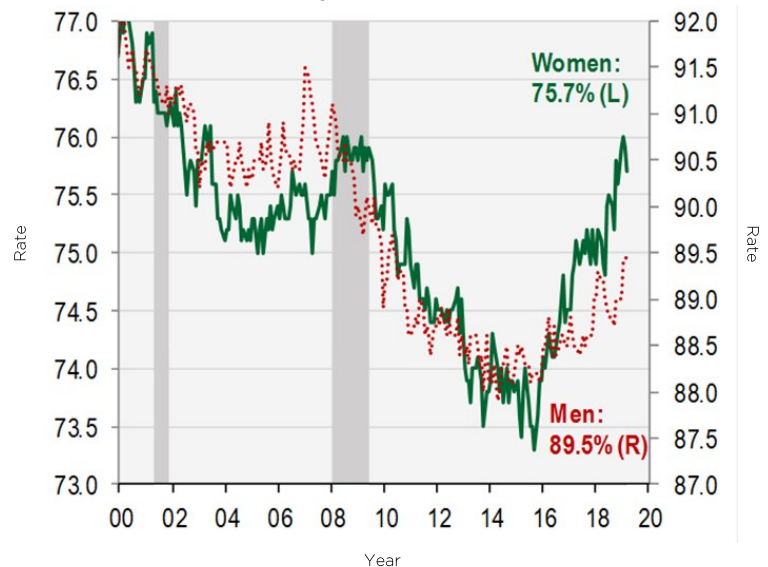
Listening to companies and studying data - two of the primary sources that feed our research process - we conclude that while the U.S. economic backdrop has been positive, the financial conditions did start to tighten last fall as a result of increased interest rates and higher tariffs. Most of the companies in our portfolio were able to stay ahead of these pressures with increased pricing, strong execution, investment in productivity initiatives and healthy end markets. Nonetheless, we are happy that Chairman Powell has responded to this data by changing Fed policy to be more accommodative.

From here, we see three central reasons to be bullish that the U.S. economy can extend this cycle: more companies are investing for growth given the structural incentives of the corporate tax code changes and productivity is improving (at last), borrowing rates remain low, and the Fed has no reason to raise interest rates with inflation remaining so benign. While some believe that the economic cycle is approaching expiration due to its sheer length, we prefer to monitor signals and data, which are both suggesting the economy is actually in the process of re-accelerating. Inflation remains low we think because of the powerful effects of automation which offers companies an alternative to hiring workers at higher rates of pay, and also because of the stronger workforce participation rates that have been a surprise to many economists.

When peeling back the onion on the data, we observe two demographic cohorts that explain this higher workforce participation - millennial women and people older than 65. Millennials are carrying a high portion of student debt, and this fact coupled with societal shifts to support working women through motherhood with better HR policies and child care choices may explain why millennial women are participating more than old labor models would imply.

With advances in healthcare we are also seeing more participation in the over 65 demographic, especially among women. These factors feel more structural than cyclical to us, and therefore we believe inflation can remain at bay for some time, giving the Fed no reason to resume rate increases or Quantitative Tightening.

U.S. Labor Force Participation Rate
Prime Age Workers (25-54) Mar:



Source: Cornerstone Macro Research

The S&P 500 currently trades at an approximate 5.1% Free Cash Flow yield, which is slightly cheaper than the 4.7% median since 1990. With 10-year treasuries offering investors only approximately 2.5% and the economic backdrop looking sound, we remain positive on equities. In the short term, earnings season may bring some bumps due to tough weather and still easing financial conditions that were present throughout the first quarter and the stock market's strong move in the first quarter may need to be digested. On any pullbacks, however, we remain buyers of high quality business models where we feel we have an ownership stake in the economics of the business. Over time these companies will continue to grow and reward us with significant compounded appreciation.

It now finally appears that our long, tough winter has started to give way to longer days and the tulips have finally started to blossom on Park Avenue giving us a renewed spring in our step. We very much appreciate all of the confidence and loyalty that you have provided to us and we look forward to the coming rest of the year.

Fixed Income Markets Review

TIMOTHY W. A. HORAN

Executive Vice President & Chief Investment Officer - Fixed Income

Themes in the First Quarter 2019

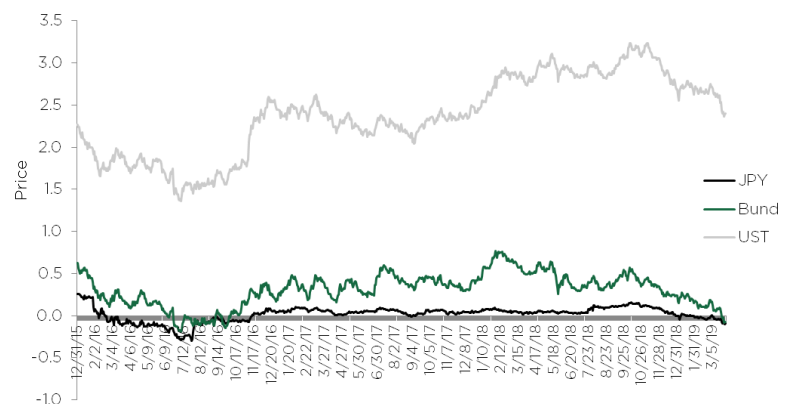
- Economic outlook: positive, moderate growth trajectory for the US economy despite external challenges such as weaker European growth and uncertainty over strength and durability of China's current trajectory.
- Short-term market: the Treasury curve became increasingly inverted, increasing the value proposition of very short-dated securities. Portfolio actions included increasing floating rate exposure given our belief that the likelihood of a near term Fed Funds rate cut is low.
- Municipal market: the 2017 tax reform has increased the value of the municipal bond tax-exemption, driving yields lower relative to taxable bonds in the first quarter of 2019. We opportunistically added AA and A-rated local general obligation bonds and modestly increased duration to maintain a neutral position relative to the benchmark.
- Corporate market: solid economic data and a Fed policy shift toward a more neutral rate stance supported a strong rally in corporate credit spreads in the first quarter. Portfolio actions included increasing allocation to cyclical names, floating-rate securities and emerging market credit.

Macroeconomic Outlook

The U.S. Economy remains fundamentally sound driven by a healthy consumer, satisfactory business investment and a healthy financial sector offering affordable borrowing costs. Monetary policy is supportive, embodied by the "PDF" Federal Reserve - patient, data dependent, and flexible. The pivot that that Fed began in the first quarter - moving from rate normalization to neutrality - remains in place, with inflationary expectation well-balanced versus full employment. China is only beginning to reaccelerate and will take some time to respond to supportive monetary and fiscal policies, notwithstanding continuing trade frictions with the U.S. Europe remains weak with Italy in outright recession and Brexit continuing to constrain European growth prospects though Germany should begin to pick-up

as China reaccelerates. The U.S. dollar remains strong and is well supported by interest rate differentials (Chart 1) as Euro rates remain close to zero or negative despite the end of European Central Bank quantitative easing policies. With close to \$16 trillion of negative-yielding bonds (primarily in the Eurozone and Japan), U.S. fixed income maintains healthy interest from foreign buyers, resulting in lower interest rate levels than would otherwise be expected given the overall strength of the U.S. economy. In addition, emerging markets offer some upside potential as the global growth trajectory will begin to benefit from a pickup in China.

Chart 1: 10-year Government Bond Yields



Source: Bloomberg

Short Term Market Overview

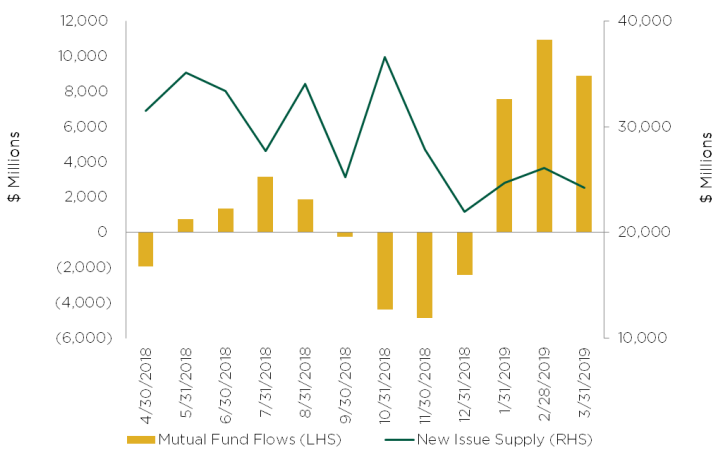
The front end of the curve (under 1-year) remains attractive given yield curve inversion for the 1 to 5-year portion of the U.S. Treasury curve. Although the 1-year U.S. Treasury yield decreased by approximately 17 basis points in the first quarter, it still remains attractive based on our view that the prospect of a near term Fed rate cut is limited. Of note, short term Treasury auctions remained in high demand throughout the quarter. We also continue to see opportunity in floating rate securities tied to 3-Month LIBOR which ranged between 2.55-2.75% throughout the quarter versus the average yield on the 10-year bond of 2.65%.

In January, U.S. Investment Grade corporate spreads were at multi-year highs and presented an opportunity to add credit and slightly extend duration. However, as the quarter progressed and economic concerns receded, credit spreads tightened meaningfully. Furthermore, the inverted Treasury curve resulted in shorter-dated corporates yielding more than those of intermediate maturities, further supporting short credit demand.

Municipal Market Overview

The municipal market started the year on a constructive note as strong demand offset modest new issuance growth. Demand was driven by more stringent Federal tax deductibility limitations, implemented with the 2017 tax reform bill and which increased the value of the municipal tax exemption, especially in high tax states. Additionally, increased maturities/calls, coupon reinvestments and limited new issue supply contributed to lower yields and positive total returns. Evidence of this demand was visible as retail investors contributed approximately \$27.3 billion to mutual funds in the first quarter which according to Lipper was the best start to a year since they began collecting data in 1992. These factors easily offset new issuance for the quarter of \$75 billion, a 14.4% increase over the same period last year (Chart 2).

Chart 2: Municipal Mutual Fund Flows vs. New Issue Supply

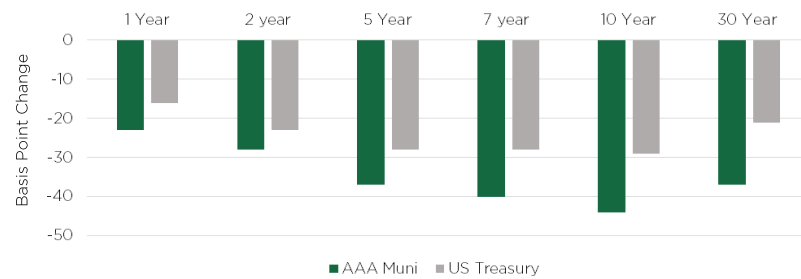


Source: Bond Buyer, Investment Company Institute

Municipal yields tightened across the curve. The outperformance witnessed over the past quarter occurred in the 5 to 30-year sectors with yields declining 36 to 42 basis points (Chart 3). Investors actively moved cash from

the sidelines and money market funds to the intermediate and long-dated sectors of the municipal yield curve in anticipation of continued curve flattening as the Federal Reserve normalizes interest rates. The strong retail demand during the quarter impacted the relative value between municipals and U.S. Treasuries. On a relative value basis, municipals outperformance was most pronounced in the 7 to 30-year sectors with ratios tightening 6 to 7 percentage points.

Chart 3: Municipal and Treasury Rate Changes 1Q19

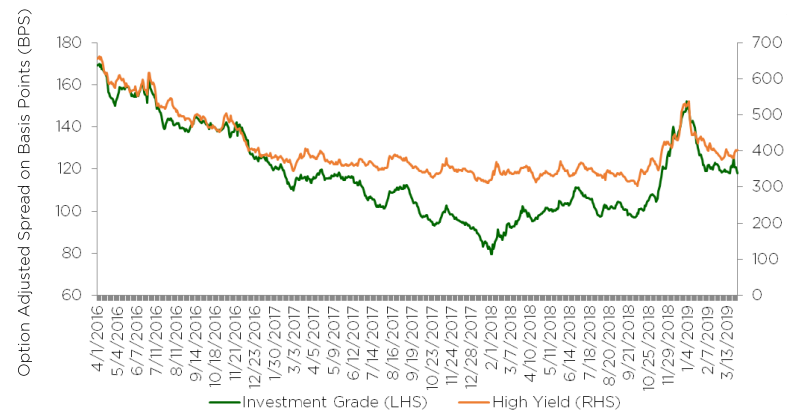


Source: Bloomberg

Corporate Market Overview

The corporate market benefited from a number of positive catalysts in the first quarter that fueled a turn-around from the fourth quarter of 2018, resulting in a narrowing of investment-grade and high yield credit spreads (Chart 4). Specifically, the December non-farm payroll reported 312,000 jobs were created in the last month of 2018, a much stronger than expected figure. This led to the FOMC reiterating that policy stance would remain patient and data-dependent, completing the shift from the previous "normalization" policy. This further supported the credit spread narrowing that had begun at the start of the year.

Chart 4: Corporate Credit Spreads



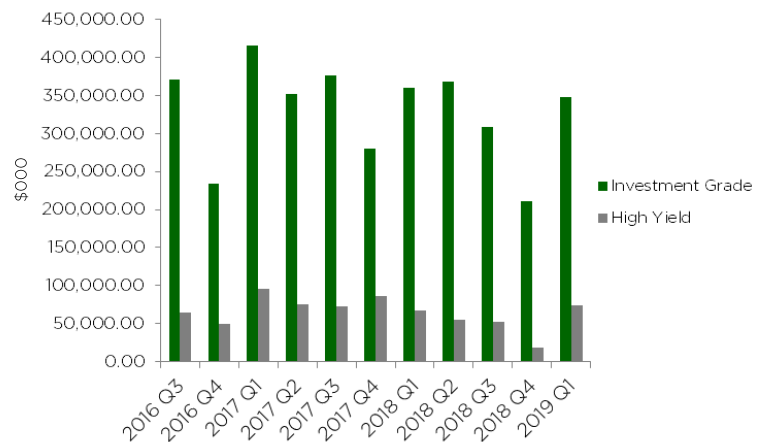
Source: Bloomberg

Credit outperformed with lower credit quality generally performing better. The Merrill Lynch CCC and below-rated index returned 7.90% versus 5.01% for the aggregate corporate index. The AA-rated cohort lagged, turning in 3.73%, while government securities earned just 2.17%. Corporate preferred securities bounced back from a volatile fourth quarter, earning 8.71% after losing -4.56% in the prior quarter. The combination of still strong economic data along with the shift in the Fed stance resulted in tighter credit spreads and lower Treasury yields, an unusual correlation. These indicators frequently move in opposite directions, as stronger economic data may improve spreads but lessen the desirability of the safest government securities.

Corporate primary supply rebounded nicely in the first quarter. The investment grade primary market (Chart 5) turned in \$348 billion across 509 issues, the highest dollar volume since the second quarter of 2018. The high yield market rebounded from a very weak fourth quarter of 2018

as \$73 billion was issued across 119 issues, representing the best dollar volume for high yield since the fourth quarter of 2017. Communications led the high-yield charge, with Clear Channel issuing a \$2.2B Caa1 rated issue. Other telecom and cable companies, such as B2 Frontier communications and Ba3 CableVision figured into the top ten largest issues of the quarter.

Chart 5: Corporate Bond Supply



Source: Bloomberg

External Manager Investment Review

LOUISA M. IVES

Managing Director & Head of Manager Research

Market Overview

What a difference a quarter makes.

The first quarter of 2019 saw a complete reversal of the fear and pain experienced during the preceding quarter. Investors, invigorated by fresh buying opportunities, drove markets across the globe higher. Once again, U.S. markets led globally, as most major indices demonstrated the strongest quarterly performance in over a decade. The S&P 500 advanced during the quarter a staggering 13.7%, and the Nasdaq surged 16.5% in the first quarter. The MSCI All Country World Index advanced 12.18%, carried in large part by the strength of U.S. markets. Performance outside the U.S. lagged on a relative basis but was still very strong, with the MSCI All Country World ex-U.S. advancing 10.3% and the MSCI EAFE advancing 10.0%. Emerging markets also demonstrated strong growth, with the MSCI Emerging

Markets Index advancing 9.9%. Broadly, growth investing continued to outperform value, and large caps once again outperformed smaller cap names.

The disruption at the end of 2018 in both credit and equity markets reversed in large part when comments made by Jerome Powell reflected a pronounced pivot and made clear that the Fed would pause its tightening stance, and even put a future easing of rates on the table. While the Fed is now decidedly “data dependent”, and growth has slowed some from the very strong domestic growth numbers we saw in 2018, underlying fundamentals in the U.S. economy remain very healthy. As we have commented in recent letters, unemployment is very low, inflation remains in check, balance sheets are healthy, and quality companies are generating strong free cash flow. Further, it appears that we are moving closer to some type of an agreement on tariffs with China, and the Brexit debacle has

been given an extension until the end of October by the European Union. All of these forces, coupled with the significant market drawdowns of the fourth quarter 2018, set the stage for a strong first quarter.

In credit markets, the yield on the 10-year Treasury closed the quarter at 2.40%, a fairly significant drop from year end when just 6 months ago the notion of a 4% yield on the 10-year bond was seemingly in sight. Today, with slowing global growth, yields have fallen and a flat yield curve remains. While we remain bullish on the underpinnings of our strong economy, we very aware of the effects of tight credit spreads, significant amounts of dry powder chasing deals and the loosening of credit standards, covenant protections, etc. In general, we are trading carefully in credit markets and wary that investors seeking yield into riskier deals, may not be getting compensated for the risk they are taking in public and private markets alike.

First Quarter Performance

The performance of our Recommended Managers in the first quarter of 2019 was very strong. When we spoke with our managers at the end of the year, many expressed very high conviction and were excited about the potential upside in their portfolios. Sure enough, many portfolios were “spring loaded” and came roaring back from the pain of the previous quarter. Our international and global managers were not as strong as the performance out of our U.S.-focused partners, but they too demonstrated strong performance. Our growth managers, in particular, both here and abroad, had very strong quarters, many beating their relative indices handily. Hedge fund returns were also strong, although more muted,

The returns generated by our credit managers have naturally been more muted, but solid nonetheless.

Overall, the strong returns in the first quarter leaves us now with an investing backdrop that is more fully valued and tempers our return expectations for the coming months ahead. We remain optimistic, but would not be surprised by a pause or a pullback in markets between now and the end of the year. Our confidence in our managers to navigate market challenges and capitalize on opportunities is very high. We work hard to partner with a highly selective group

of managers, and be responsible stewards of your capital.

As always, we are grateful for your support. If you have any questions, please don't hesitate to reach out.



Richard L. Chilton, Jr. is the founder, Chairman and Chief Investment Officer of Chilton Trust Company, which in April 2012 was the first company in eight years to be awarded a trust charter in Florida. Mr. Chilton also serves as the Chairman, CEO and Chief Investment Officer – Equities of Chilton Investment Services and is the founder, Chairman, CEO and Chief Investment Officer of Chilton Investment Company.

Since founding Chilton Investment Company in 1992, Mr. Chilton has built a team of investment professionals focused on building wealth in favorable markets and preserving capital in declining markets. Under Mr. Chilton's leadership, Chilton Investment Company has developed an investment approach committed to fundamental, bottom-up stock selection and disciplined portfolio management.

Prior to forming Chilton Investment Company, Mr. Chilton was a managing director of Allen Value Incorporated and a vice president and equity portfolio manager at Alliance Capital Management Corporation. Mr. Chilton began his career in the Mergers and Acquisitions group at Merrill Lynch and Company.

Mr. Chilton is a trustee of The Metropolitan Museum of Art and a trustee of the Classic American Homes Preservation Trust, both located in New York.

Mr. Chilton received his B.S. in Finance and Economics from Alfred University.



Jennifer L. Foster is an Executive Vice President, Co-Chief Investment Officer & Portfolio Manager – Equities and is an equity specialist who has worked at Chilton Investment Company for over 20 years. Prior to taking on her role as Portfolio Manager in September 2012, Ms. Foster served as Chilton Investment Company's Director of Research for seven years. She also serves on the Chilton Investment Company Risk Management Committee, Board of Directors, and Executive Board. Preceding her tenure as Director of Research, Ms. Foster served for seven years as an equity analyst at Chilton covering the Software and Technology sectors.

Before joining Chilton, Ms. Foster worked at GE Capital as a financial analyst in several divisions of the company including commercial finance, commercial real estate, equipment leasing and corporate planning. Ms. Foster graduated summa cum laude with a B.A. in English from Boston College and earned an M.B.A. with distinction from Harvard Business School. She is a current trustee of St. Luke's School and the Calvin Coolidge Presidential Foundation.



Timothy W.A. Horan is an Executive Vice President & Chief Investment Officer - Fixed Income. With over 30 years of experience, Mr. Horan is a specialist in fixed income investing, ranging from municipal and US taxable securities to international bonds and currencies. He leads a team of nine professionals managing client assets across a variety of strategies including intermediate liquidity, tax-advantaged, taxable, international and global.

Prior to joining Chilton Trust, Mr. Horan was a Managing Director at Morgan Stanley Smith Barney and served as MSSB's Chief Investment Officer of Fixed Income Investment Advisers, a division of MSSB, providing customized portfolio management to ultra-high net worth private clients, charities, endowments, foundations, and family offices, primarily in North America, the Caribbean and Latin America. Earlier, Mr. Horan led Morgan Stanley's Private Wealth Management Fixed Income business in London serving European, Middle Eastern and Swiss private bank clients. Mr. Horan also served on the Morgan Stanley Global Asset Allocation Committee. Before joining Morgan Stanley, Mr. Horan was Director of International Fixed Income at Lord Abbett & Co. He also held senior management positions in fixed income and foreign exchange portfolio management at Credit Suisse, Aubrey G. Lanston & Company, Inc. and Bankers Trust. At Bankers Trust, he helped pioneer the fixed income risk management frameworks. Mr. Horan began his career at the Federal Reserve. During the Volcker years, he was an Economist in the Sovereign Debt Unit at the New York Fed, working on the debt restructuring of Brazil, Mexico and Argentina. Following the Plaza Accord, he also served as a foreign exchange trader for the Federal Reserve Bank of New York. Mr. Horan earned an AB with honors in Economics and History from the University of Pennsylvania, Wharton-Sloan Program. He was an Andrew Mutch Scholar in Economics and Politics at the University of Edinburgh and holds a post graduate law degree from the University of Cambridge, where he was a Thouron Scholar.



Louisa M. Ives is a Managing Director & Head of Manager Research. Ms. Ives is responsible for external manager selection and due diligence for Chilton clients and is also a member of the Executive and Investment Committees at Chilton Trust. Prior to joining Chilton, Ms. Ives was a Managing Director at Chilton Investment Company, where she was a research analyst covering the financial services sector. She also served on the company's Board of Directors. Prior to joining Chilton, she worked at Coopers & Lybrand Consulting Group, reporting directly to the CEO, and began her career at Chemical Bank in their Middle Market Lending Group. Ms. Ives graduated cum laude from St. Lawrence University with a B.A. in English Literature and earned an M.B.A from

Harvard Business School.

Ms. Ives serves on the boards of The First National Bank of Long Island, the North Haven, ME Casino (Yacht Club), The Project Y Theatre Company, and on the Investment Committee of Vinalhaven, ME Land Trust.

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