CHILTON TRUST

Quarterly Commentary: First Quarter 2020

Introduction

PEPPER ANDERSON, Chief Executive Officer

Reflecting on our outlook for 2020 coming into the year, we anticipated volatility increasing but clearly not with the magnitude and global pandemic context that we have seen. Throughout the first quarter, we have remained anchored in our commitment to active management and resilient portfolios.

Our goal is to thoughtfully balance the preservation and growth of our clients' capital, in portfolios that are customized to the goals of your family. As much as this implies a daily commitment to risk management and seeking of return in your portfolios, it is also heavily influenced by the planning work we do together. This quarter's volatility has heightened investors' sensitivity to the timing of liquidity needs, personal risk tolerance and tax planning opportunities. Whether your goal is to pass wealth to heirs, take advantage of low interest rates, philanthropy, or most likely a combination, we welcome the opportunity to partner with you in achieving them.

Market Overview & Outlook

RICHARD L. CHILTON, JR, Chairman & Chief Investment Officer – Equities
JENNIFER L. FOSTER, Co-Chief Investment Officer & Portfolio Manager– Equities
TIMOTHY W. A. HORAN, Executive Vice President & Chief Investment Officer - Fixed Income
LOUISA M. IVES, Managing Director & Head of Manager Research

The COVID-19 virus and the need for social distancing measures to combat it have brought the world as we know it to a virtual standstill. Markets reacted swiftly, and we saw one of the sharpest and most brutal market downturns in history. While economists and the Federal Reserve do not have a playbook for this unprecedented situation and elevated levels of volatility will likely remain for at least the near term, we do know that this is an exogenous shock to the economy which is demand-led rather than credit induced; even though this vaporizing of demand will lead to credit dislocations, the Federal Reserve and central banks around the world have acted swiftly.

The Federal Reserve's immediate goal has been to provide direct support both to financial markets and ultimately to the real economy. It first drew from its existing tool kit - traditional rate cuts. But, with unprecedented speed, it secured from Congress the extra authority to undertake an unlimited expansion of its balance sheet (currently $6T+) and for the first time secured the authority to buy Corporate and Municipal bonds. Having learned from the last crisis the need to get support not just to the "too-big-to-fail" institutions, but to get credit flowing all the way down to small businesses, the Federal Reserve has produced a highly complex safety net of programs to catch a U.S. economy in free-fall. We are still at the early stages of its implementation. There have been problems already, and we expect that there will be

more ahead, but we believe that the Federal Reserve's commitment to getting the job done is firm.

When markets decline with the magnitude that we saw in March, October 1987, 2001-2002 or 2008-2009, people often ask: where is the bottom? Our experience tells us that bottoms are not about price so much as they are about process. This process generally takes time, as it is intended to clear the markets of the yin vs. yang of buyers and sellers. Investor fears, coupled with the massive deleveraging of overly leveraged investment funds and ETF's, all transpired to create the major price dislocations that we all witnessed. We are focused on maintaining a rational and calm thought process in assessing economic and market risk, and balance that thinking with opportunities for times to become more offensive in establishing new positions. Buying when others are selling is never easy, especially during extremes caused by a global pandemic, but the very best businesses will continue to thrive and prosper. As much as things change, others stay the same. The right time to buy is often when all of your proper investment and business analysis tells you that the price is way below a company's intrinsic value, thus giving you a safety net and superior returns over the ensuing three years. The best prices are always coupled with a "pit-in-your-stomach" feeling because if it didn't, you wouldn't be getting those incredible prices. Our confidence is always placed in the quality of the companies and the strength of their business models.

During periods like this we also tend to do some upgrading of our investments, not because what we had wasn't great, but because the new price opportunities possess better returns for the portfolio over the next three years. The economic uncertainty caused by this virus was especially hard on certain sectors like financials, travel, leisure and consumer discretionary. However, given that the duration of this economic dislocation is still unclear, we are increasingly focused on the most resilient and durable of our investments.

For our external managers, hedge funds were a relative bright spot. Several managers were able to successfully navigate the challenging markets, and with the benefit of strong performing short books, came out of the quarter having generated significant alpha. With the S&P 500 and the MSCI World Indices down -19.6% and -21.3% respectively, the majority of the hedge funds we partner with were down in the single digits through March 31st. Notably, our technology and healthcare sector-focused hedge funds performed particularly well during the first quarter. Our European hedge funds also had very strong relative performance, propelled by high quality long positions coupled with very strong performance on the short side.

Our long only equity managers were harder hit during the first quarter, but for the most part were able to outperform their relative benchmarks. As in past quarters growth continued to outperform value, and through the majority of our external partners, who, like us, focus on quality, we were reminded why quality matters. Balance sheet quality is a key tenet when assessing companies, and there are a number of highly levered companies that may not survive, even with the backdrop of zero interest rates. A strong focus on quality helps to avoid exposure to such companies. We are particularly pleased with the managers in the Chilton Select Equity Fund – all six managers generated very nice alpha during the challenging first quarter, which is notable coming off a very strong 2019 for the fund which returned in excess of 36%.

In our fixed income portfolios, we have focused both tactically and opportunistically for our clients. As the crisis unfolded, even typically liquid markets like U.S. Treasury securities suffered from patches of illiquidity due to lack of traditional market making functionality. With bank and deal balance sheets under pressure, markets demonstrated the reality of the unintended consequences of Dodd Frank legislation and set the stage for the historic muscular response of the Federal Reserve to re-liquify fixed income markets across the board.

For our clients, we have responded to specific liquidity needs as well as to being able to take advantage, where possible, to add some better yield opportunities particularly in Investment Grade Corporate Bonds, as well as in Municipals and Qualified Dividend Income Preferreds. As the recovery unfolds, we will continue to assess what sectors and what specific securities have the most favorable trajectory for safety and for yield.

Outlook

While the doomsday scenario is likely off the table and investors have started to focus on the post-COVID re-opening, the road ahead remains challenging. In order to safely reopen the economy, several things need to happen. Testing capacity has come a long way, however it still remains well below demand levels. Therapeutic solutions have not been scientifically proven out though many are being researched, and some have moved into trial and show great promise. Projections for a vaccine remain 12- 24 months away. Countries throughout Asia that were hit with COVID-19 earlier than the U.S., though starting to open, are having to resume sporadic closures in some instances. South Korea remains the best example of successful virus containment policies and gradual economic resumption thanks to thorough surveillance systems coupled with prolific testing, suggesting a future recipe for the U.S, but questions of civil liberties and American tolerance for heavy surveillance loom.

It is at this moment still unclear how long business closures in the U.S. will endure, and more importantly, whether there will be rolling closures in the future due to a second wave of the virus. This makes forecasting the future path of equity markets — which are a discounting mechanism for future economic activity — a bit of guesswork.

We are resorting to scenario analysis, knowing that the best time for future returns is in the midst of uncertainty. Our base case assumption is that the U.S. opens gradually for business in the late spring/early summer and achieves a “75% economy” until a therapeutic solution and universal testing are achieved. We hope this will happen by September so that the risk of recurrence of the virus in the fall/winter is greatly diminished. Leading medical and health policy experts like Dr. Scott Gottlieb, former FDA commissioner, and Dr. Ashish Jha, Director of Harvard’s Health Institute, believe this timing is possible if policy supports testing, regulators fast track promising therapies, and some level of surveillance is adopted and implemented. Our base case assumes that this administration will be pragmatic and pro-growth in their approach to decision making as they have been in developing the financial rescue package to augment the economy during the virus induced shutdown.

If we are back to full economic production in the fall after a gradual opening through the summer, the question becomes what amount of economic damage was done and how strong is confidence to resume economic activity. Much will be changed, but comparisons to the ‘08/09 recovery seem overly

bearish to us. Coming into this with a healthy banking system, achieving unprecedented strong and timely policy response, and knowing that this was an exogenous shock, not something brought about by poor economic policy, should aid in the pace of recovery. As we think about 2021 and the post-COVID economy, we have made a few baseline assumptions for economic activity:

- The U.S. consumer is less strong than 2019, given the hit to unemployment which will recover from the depths of the shutdown but may not return to full employment.
- Chinese supply chains will continue to move closer to home; Mexico and the Industrial Heartland will benefit. Tensions will continue to be at extreme levels with China around the world, given their role and lack of transparency in this crisis.
- Overly levered retail, hospitality and entertainment companies will not survive the shock; more store closures and shift to e-commerce will ensue.
- International travel will resume but at lower levels than pre-COVID given general safety fears.
- Stock buybacks, and in the case for the marginal companies, dividends will be severely curtailed as companies repair balance sheets.
- Greater investment in the U.S. Healthcare system, and in incentives for our medical workers, may result from COVID-19.
- Work from Home and distance learning technologies may be adopted more broadly.
- International sanitation standards will improve.
- Interest rates will remain low as the Federal Reserve will not want to disrupt a fragile recovery.
- Tensions will remain heightened in Euroland as the lack of help given to both Italy and Spain during this crisis by the EU will lead to disenchantment over their membership.
- More “constructive capitalism” where companies need to do more for their workers as they recover from this crisis will prevail; higher minimum wages may be passed.

Since the U.S. economy is 70% consumption based and we are forecasting a slight reduction in consumption, offset somewhat by a near shoring of manufacturing activity, our 2021 economic forecast is similar to 2019 though the components of growth are different. In 2019, the S&P Earnings were $163. We believe we will see a range of $155-$165 in 2021, and that this is the number that matters for the future direction of U.S. equities. We still see inflation remaining low as well as interest rates, leading us to assume an 18x Earnings Multiple is warranted for equities. This pencils out to a one-year target range for the S&P of $2,800 - $3,000, which is not meaningfully above where the markets are currently trading. We believe volatile days are ahead and will bring opportunities. Our focus remains on maintaining holdings in your portfolios that possess upside and resilience.

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.

Pepper Anderson is a President & Chief Executive Officer. Pepper Anderson is President and Chief Executive Officer of Chilton Trust, with nearly three decades of experience in financial services and wealth management. Prior to joining Chilton, Ms. Anderson spent more than 20 years with J.P. Morgan Private Bank, where she most recently served as Managing Director and Market Manager for Connecticut and Westchester County, NY. During her tenure at J.P. Morgan, Ms. Anderson developed a deep understanding of both technical investing and private client relationship management, holding roles of increasing responsibility across a diverse range of businesses, including U.S. Head of Discretionary Fixed Income, Head of the Private Bank's Fiduciary Investor Group, and Investment Team Lead for High Net Worth and Fiduciary. After obtaining her B.A. degree from Tulane University, Pepper's successful foray into the financial world began in equity trading at Bear Stearns & Co. She then held roles in fixed income portfolio management at Meredith, Martin & Kaye and the Union Bank of Switzerland.

Pepper serves on the board of the Greenwich YWCA, as a committee chair for Impact Fairfield County and enjoys additional volunteer opportunities with her church and children's schools.

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