

Quarterly Commentary: Third Quarter 2020

Introduction

PEPPER ANDERSON, Chief Executive Officer

Throughout 2020, the temptation to move tactically between asset classes and most particularly to market-time the stock market has been on many investors' minds. The effect of unprecedented stimulus from the Federal Reserve coupled with a dramatic shift in the perceived timeline of economic recovery resulted in markets that were stronger than most had predicted in the third quarter. We have encouraged our clients to stay the course, reflective of our belief that the medium- and longer-term outlooks are positive for the economy. That said, our portfolio managers have been focused on reviewing your portfolios

daily to make sure we are always reflecting our best thinking, balancing risk, return opportunity, tax implications, and our knowledge of your liquidity needs.

We have also received many questions about tax and estate plan implications post-election. We look forward to sharing more detailed thoughts with you individually and on our November 17th scheduled call. This is the time of year to be considering any gifting or tax loss harvesting that may be appropriate for your goals.

Market Overview

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 stock market momentum continued into the third quarter as professional investors became more comfortable with the containment of the COVID-19 crisis and the degree to which the Federal Reserve stimulus was impacting the shape of economic growth. The “L” shape of the recovery which many economists were calling for just two months earlier began to look more like a “V” shape recovery, as evidenced by the second quarter earnings results amidst a backdrop of strong macro-economic data. Earnings projections also moved meaningfully higher for the quarter, year, and into 2021, amid hopeful signs of continued recovery. There will

be fits and starts but we largely think that this gradual upward trend will continue as a result of low interest rates, strong consumer balance sheets, continued gains in employment and the nascent onshoring of foreign supply chains which will have a dramatic impact on manufacturing and employment for the remainder of the decade.

Equities

Parsing deeper into the performance of the equity markets during the third quarter, markets continued to reward growth over value, and the

tech-heavy Nasdaq further widened its lead, advancing 11.2% in the quarter while the S&P 500 gained 8.9% this quarter. International markets also had a strong quarter with the MSCI All Country World Ex-U.S. index rising +6.4% and MSCI Emerging Markets rising +9.7%, though year to date returns continue to lag the U.S.

	Q320	YTD
S&P 500	8.9%	5.5%
NASDAQ	11.2%	25.3%
MSCI ACWI ex-U.S.	6.4%	-5.1%
MSCI EM	9.7%	-0.9%

Source: Bloomberg

Technology, Communications Services, and Consumer Discretionary names continue to be the drivers of strength in the markets, and all are sectors that have delivered strong earnings results and benefitted from multiple expansion. Financials and Energy sectors continue to detract from overall market performance with earnings in both sectors under pressure. The narrowness of performance of the market (just five names accounted for a quarter of the market's performance during the third quarter) points to opportunity for good, active stock pickers.

Fixed Income

Fixed income markets traded in limited ranges throughout the third quarter, pricing in the dynamic tension between the trajectory for a stronger U.S. economic recovery and the need for further fiscal stimulus from Congress. This dynamic was best reflected in the 10-year U.S. Treasury which fluctuated between 0.51% and 0.75% during the quarter but closed at 0.68%, the exact rate at which it started the quarter. The policy-making framework remained highly accommodative as significant Federal Reserve

and Congressional stimulus enacted in the second quarter continued to provide market benefits in the third quarter. During the quarter, the Federal Reserve further expanded its support signaling a willingness to allow inflation to exceed its 2% target without triggering a premature Fed tightening response, provided they forecast a return to the 2% threshold in the course of the recovery cycle. As a result, Chairman Powell and other Fed leaders have continued to make clear that the Fed will remain in a "lower-for-longer" rate framework, having learned from both the Bernanke-era "taper tantrum" and from the Yellen premature tightening episodes. Finally, the Fed has supported both the corporate and municipal bond markets with new programs - a secondary market purchasing program in the case of the corporate credit market and a short term liquidity facility in the case of the municipal market - and both proved effective at maintaining a healthy flow of credit to borrowers. As a result of this accommodative environment, fixed income returns in the third quarter remained positive though moderated slightly from the pace seen in the second quarter, given stable Treasury rates and more modest compression of credit spreads.

Our Portfolios: The Acceleration of Creative Destruction

The top holdings across all of our strategies share a common denominator. They operate high quality business models with durable revenues, reliable cash flows, with increasing dominance in their market share position. We have seen a period where the strong are getting stronger and the weak are getting weaker to an unprecedented degree. The COVID-19 crisis has greatly accelerated the creative destruction of worldwide businesses and transformed how the better business models will succeed in the future. This crisis has informed and educated these companies on how to improve their operating structures, rationalize their physical plants and increase their digital capabilities through omni-channel and direct-to-consumer offerings. This transformation will be invaluable to these companies in enabling them to better increase their margin structure and improve organic revenue growth.

It is not just technology companies that are doing this but also heartland American companies across industries including home improvement, transportation, and others. We were struck by a quote from the CEO of one of our portfolio companies while we listened to their second quarter earnings call. He said the following: “We learned a lot about our business during this crisis and have put in place things that will make us a more efficient and better company from a profitability and structural basis. In addition to a more efficient footprint our margins structure will be more enhanced for years to come.” This growing dominance of the better companies combined with a historical low interest rate environment is the main reason why the valuations for these businesses have gone higher. The big question facing the markets is whether valuations are too high and unsustainable?

We think about that a lot as we assess our valuation metrics. We look at normalized ratios of price to earnings and free cash flow yields to determine future returns. By relying mainly on past metrics, you greatly risk discounting the future upside that the previously discussed restructurings will provide. In our opinion, Wall Street earnings estimates will prove too low for these companies and our own internal projections call for much higher and more stable earnings over the next three years. These earnings beats will provide continued upside momentum for the stocks.

We have long preached the attractiveness of finding the very best business models and investing in them for the long term. Investors often ask us what differentiates us from other professional investors and we always say our criteria in assessing great companies and our patience and belief in our portfolio investments. Really big returns are not always generated in the first or second year but in years three to ten. Most professional investors lose patience and quit by that time as they think that the “new new thing” is better. To evidence this point, recent accounts have pointed out that with Warren Buffet turning 90 years of age in August, Mr. Buffet accrued at least 95% of his wealth after the age of 65. In addition, if he had invested for only 30 years rather than his current tenure, he would be worth 99.9% less. The plain fact is that skill in investing is very important but compounding time is the real secret.

We have been getting a lot of calls about the FAANGMs (Facebook, Amazon, Apple, Netflix, Google, and Microsoft) and should we be buying them now. We understand why there is interest in these names but our investment philosophy has always been the same: we invest in those companies we know and we

believe will be around for the long haul. A lot of people have asked will they continue their dominance and it is a tricky question. On one hand they are great businesses that can continue to grow without a lot of capital employed and their dominance in society seems to be growing; but on the other hand, Apple stands at 7.4% of the S&P 500 index which is at an all-time high; we went back and looked at the other companies since 1960 that held that distinction of being number one in the index. Names like GM, Exxon Mobil, Dupont, IBM, GE, Altria and Walmart all sat atop the list but have since declined greatly. Each one was especially dominant in their day, but businesses and society change as do investors' appetite for what they will pay for these businesses. We are not calling for the FAANGMs demise, but we are

calling for prudence in what investors are paying for these businesses.

Our external managers demonstrated very strong performance, with only a handful of exceptions, during the third quarter. We saw returns out of our partners fall in a relatively tight range of strong results, a welcome continuation of recovery from the first quarter. Those managers that lean into growth led the way, but both equity and credit managers on our platform performed well, most exceeding their relative indices. The ability to outperform strong index performance points to strong security selection and portfolio management .

Our Outlook

As we have discussed, equity markets have staged a remarkable comeback from the March lows and now stand at the high end of our December 2020 valuation target. From here, the picture becomes murkier, with some calling for a stall in economic activity as the virus continues to limit full economic participation, winter weather inches closer and possibly brings a seasonal second wave of the virus, fiscal stimulus potentially wanes, and the prospect for policy change hinges on final election results. However, there are important forces that argue this economic recovery will continue: the resilience and ingenuity of U.S. businesses foremost, the reality of vaccines and therapies being approved and distributed ushering in a return to normalcy, and the unprecedented amount of monetary and fiscal stimulus at work.

The news media, perhaps reflecting human nature during a pandemic, seems largely fixated on the “what can go wrong from here” scenario. The contrarian investor is perhaps more

interested in exploring what can go right. Business ingenuity and adaptability never ceases to amaze us. The pivot that so many companies made to focus on core operations and efficiency during the worst days of the pandemic was impressive. Not all businesses will be winners and some industries were squarely hurt by the virus with no chance of minimizing its impact; but many consumer, industrial, healthcare and of course technology companies that have embraced innovation and adaptability seem to be finding great opportunities even in the midst of the pandemic.

Vaccine and therapeutic solutions to COVID-19 are now imminent. In our research, nearly all of the Pharma and Biotech industry experts we follow attest to the unprecedented scientific coordination that has occurred in 2020 in order to solve COVID-19, and the results of this great effort will continue to become apparent in the coming months. This collaboration will help us not just move past COVID-19, but will lead to

progress in other therapeutic areas, potentially unleashing a great leap forward in healthcare outcomes globally. Some recent positive developments include the announcement of Pfizer's vaccine progress as well as advanced treatment options for COVID-19 including Gilead's Remdisivir, Monoclonal Antibodies, and traditional steroid treatments by following President Trump's experience with the virus itself.

Perhaps the largest reason not to become overly cautious on equities has to do with the unprecedented monetary and fiscal stimulus both in the U.S. and globally. In a highly partisan political environment, U.S. politicians have found common ground in supporting three large relief packages for the American people and the Fed has signaled unwavering support, understanding that this pandemic and the ensuing shut downs that it caused require liquidity to bridge the economy to the other side. Some worry about the bill coming due, which we believe is a reasonable but premature concern. While these coordinated forces are pumping out liquidity, the path of least resistance for equities is probably higher. And while valuation levels are full in certain pockets of the market, there is still value to be found, especially outside of technology.

Our fixed income outlook is predicated on a gradual, uneven resumption of economic activity albeit with a bias toward lower treasury rates. Uncertainty around the timing and magnitude of additional Federal fiscal stimulus as well as episodic business restrictions related to the pandemic should provide opportunities to add to favored names experiencing near-term pressure. In the corporate market, we maintain a positive outlook for a small number of industries (namely semiconductors, cable and telecom) but believe the list could grow over the next year as conditions gradually improve. Notably,

fears of a 10-12% default rate for corporate high yield bonds during 2020 have been replaced with a more sanguine consensus of a year-end default rate of around 8%. In the municipal market, we are more selective on sectors such as aviation and higher education. In terms of structure, we prefer callable bonds known as "kickers" which can provide protection in a volatile market given additional yield compensation available to the investor, as well as an improved portfolio cash flow profile.

In a normal election year, investors would have been climbing a wall of worry, led by a nervous media hyper-focused on every iteration of the election at hand. In a year such as 2020, investors are contending with a mountain of fear. As the current election scenario plays out with Biden as President-elect, a divided government would be positive for equities because government action becomes even more difficult to enact, and the laws in place currently are mostly pro-growth. We will be watching the developments in Washington carefully in order to assess how quickly the economic recovery tracks from here. But for the immediate term, we remain constructive on equities, preferring as always high quality, innovative and adaptive companies above all else.



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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