Chilton Trust

Quarterly Commentary: Fourth Quarter 2019

Introduction

PEPPER ANDERSON, Chief Executive Officer

With 2019 in our rear view, our attention has pivoted to 2020 with the objective of preserving the gains that have been earned so far in this market cycle and continuing to grow our clients' wealth. As you will read below, we remain constructive on markets and believe that our clients should remain fully invested. Between the upcoming U.S. election and evolving economic backdrop it may be tempting to hold excess cash positions or time markets. History has proved this to be a challenging exercise.

That said, we do anticipate that volatility may be higher this year than last so we will continue to engage with you to make sure that we have planned thoughtfully for any liquidity needs you anticipate over the course of the year. Additionally, we will continue to assess the markets and portfolios to ensure we are appropriately calibrating risk to our outlook as well as your specific goals and time horizon.

Partnering with you to optimally position your portfolio is a privilege. As always, we thank you for your continued confidence in Chilton Trust and our team.

Market Overview & Outlook

The close of 2019 caps off a very strong year of returns across almost every asset class. When we entered 2019, it felt like risks were everywhere: geopolitical concerns were swirling, the tariff war with China was escalating, the Global economy was slowing, and Brexit felt unresolvable. Yet as 2019 unfolded, the Federal Reserve pivoted to a highly accommodative stance, cutting rates three times over the course of the year, the negative rhetoric around the trade war with China abated, Brexit was given a decisive "move forward" mandate, and markets rewarded risk assets handsomely. U.S. markets provided the strongest returns globally, as low unemployment, solid corporate earnings and low interest rates and low inflation provided the backdrop for stellar market performance. The S&P 500 rose 31.5%: its strongest year since 2013, and capped off a decade of 13.5% annualized return. That's impressive performance.

Global Market Returns*

Annual					5 Yr. CAGR
2015	2016	2017	2018	2019	2015-2019
Eur Large Cap Equities 6.4%	U.S. High Yield Bond 17.1%	Emerging Mkt Equities 37.8%	U.S. Muni. Bond 1.3%	U.S. Large Cap Equities 31.5%	U.S. Large Cap Equities 11.7%
U.S. Muni. Bond 3.3%	U.S. Large Cap Equities 12%	U.S. Large Cap Equities 21.8%	U.S. High Yield Bond -2.1%	Eur Large Cap Equities 28.2%	Eur Large Cap Equities 6.3%
U.S. Large Cap Equities 1.4%	Emerging Mkt Equities 11.6%	Eur Large Cap Equities 9.2%	U.S. Inv. Grade Bond -2.5%	Emerging Mkt Equities 18.9%	U.S. High Yield Bond 6.1%
U.S. Inv. Grade Bond -0.7%	U.S. Inv. Grade Bond 6.1%	U.S. High Yield Bond 7.5%	U.S. Large Cap Equities -4.4%	U.S. Inv. Grade Bond 14.5%	Emerging Mkt Equities 6%
U.S. High Yield Bond -4.5%	Eur Large Cap Equities 3.7%	U.S. Inv. Grade Bond 6.4%	Eur Large Cap Equities -12%	U.S. High Yield Bond 14.3%	U.S. Inv. Grade Bond 4.6%
Emerging Mkt Equities -14.6%	U.S. Muni. Bond 0.2%	U.S. Muni. Bond 5.4%	Emerging Mkt Equities -14.2%	U.S. Muni. Bond 7.5%	U.S. Muni. Bond 3.5%

*All returns show gross of taxes
Source: Bloomberg as of 12/31/2019

Fixed Income markets also produced impressive performance — ranging from U.S. Treasuries and Municipals to Investment Grade Corporates and High Yield, as global investors sought refuge from the negative yields in Europe and Japan.

As we look out to 2020, we see a number of reasons to remain bullish, albeit with more tempered return expectations relative to last year. Our core thesis is for the Fed to remain on hold throughout the year, and U.S. GDP growth of about 2%. With recessionary fears at bay and inflation indicators in check, continued low interest rates are highly constructive for equities. That said, we do expect 2020 to be more volatile than recent years. Geopolitical concerns remain, and the march toward the 2020 election will likely provide news flow that disrupts markets. With markets elevated, pockets of volatility could prove painful in the short term, but provide healthy opportunities for longer term investors.

Is the bull market run over? We don't think so. We are often asked about valuations, particularly on the heels of 2019's strong performance. The forward Price to Earnings "P/E" multiple on the S&P 500 today stands at about 18x, slightly ahead of its historical average. When measured on a Price to Free Cash Flow "P/FCF" basis — a metric that we believe to be a more important measure of the health of companies — valuations appear more in line with historical averages. Given the low interest rate environment, which we fully expect to continue, markets have room to expand further, albeit at a more moderate pace. While earnings grew in 2019, it can be argued that much of last year's market performance came from multiple expansion, a large part of which was simply a recovery from the damage wreaked during the 4th quarter of 2018. We don't expect to see meaningful multiple expansion from here, but earnings should continue to grow, particularly for those high quality companies that are the beneficiaries of change and disruption. One profound lesson we have learned over the years: it doesn't pay to try to time the markets. Each quarter, year and decade will have pockets of uncertainty driven by economic uncertainty, political tensions and disruptive change. Astute investors are long term sighted, highly selective, and wisely invested.

Equity Markets Review

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

The Federal Reserve put their foot on the gas pedal and the engine of the stock market roared with excitement during the fourth quarter of 2019. With inflation subdued, the Federal Reserve gained confidence in changing the course of monetary policy in order to stimulate growth. As a result animal spirits were alive and well and formed the basis for a dramatic rally.

For the full year of 2019, our winners were significant as many of our long term investments performed exceedingly well fundamentally. As a result, the stock market recognized them, sending their stocks higher. We would certainly love to take the credit for such outstanding performance on our long investments, but the Academy Awards really should go to the truly wonderful business models that we have in our portfolio. Most of these companies have been in our portfolio for years and the combination of great businesses coupled with market leading management teams who possess board room DNA that successfully allocate capital has driven stock price alpha for us over long periods.

Some of our investment holdings performed so well in the first 9 months of the year that they did not keep up with the "animal spirits" of the 4th Quarter. Also, the strong beta rally of the last three months of the year accrued to the benefit of many high tech and biotech companies which generally do not meet our standards for high quality business models. We will stick to our knitting knowing that in the long term, investing in high quality companies will win the day.

Outlook

The S&P's strong appreciation last year is nearly all explained by multiple expansion given that 2019 earnings growth was about 1%. At the beginning of 2020, the S&P 500 P/E multiple stood at about 18.7x, matching the highs of Q4 2017 and exceeding the 30-year median of 15.6x by three turns. This is high, but not as high as the 26.5x P/E level we witnessed in the late 1990's when strong economic growth, relative world peace and the birth of the Internet age was upon us. Still, this multiple level will require that economic and geopolitical conditions continue to remain much as they are. Heading into an election year, policy uncertainty seems like a risk factor.

The good news is that we are expecting healthy earnings growth this year. Bottoms up estimates are looking for about ~9% EPS growth for the S&P 500; we estimate that many of the names in Chilton portfolios will exceed this level of growth expectation. This earnings growth is predicted in large part because of the positive economic backdrop that is being enjoyed in the U.S. with near full employment, a strong consumer, low inflation, an accommodative Fed, low interest rates, and ample free cash flow generation which is being returned to shareholders. With some clarity on trade given the phase one deal with China, and the political will to move forward with BREXIT, global growth is poised to resume gradually which will help companies both here and abroad. We are keeping an eye on the development of the Coronavirus in China and globally. It is possible that this takes a bite out of Chinese consumer spending, which could hurt global growth a touch. But given the strong intervention of the Chinese government to contain the virus as well as accelerated efforts to find a vaccine, it is very possible that this does not amount to a material set-back for global growth.

We believe that the economic backdrop will remain healthy, with the greatest risk being a poor inflation reading that may cause investors to worry that the Federal Reserve will move from its accommodative stance. Given the continual benign measures of inflation and the progress of automation, it is hard to see this happening soon, but it remains a risk. Also, the election cycle is another risk likely to create some headline scares along the road to November. Personal feelings aside, the markets are rooting for consistent and pro-growth economic policy, and the policies being floated by some far left candidates have the ability to scare investors if they are enacted. A nasty, drawn-out election cycle will promise to exhaust us all, but the markets will only care if true policy change that challenges growth looks likely. We saw the extent of this market phenomenon when Senator Warren's polling data dipped last September and healthcare stocks took off (the S&P Healthcare Sector ETF has moved roughly 17.5% since early October!). The "Medicare for All" plan that she was advocating was holding down the performance of an entire sector reminding us of the market's sensitivity to policy change. It seems to us that the strong UK vote against Jeremy Corbyn was a wake-up call to our Democratic establishment, and we expect them to get behind Vice President Biden as the leading moderate in the field.

So the challenge for equity investors this year is to believe that growth policy will remain, that economic momentum will continue, and that geo-political uncertainty does not rise. We believe that the markets will be volatile from current levels, but that the premium multiple will be maintained and that earnings growth will come through. We all agree that 2020 will not be the barn-burner that 2019 was, but we believe that the equity markets will perform well given the strong macro backdrop and the accommodative monetary policy of the Federal Reserve.

In closing, all of us at Chilton Trust want to thank you for your confidence in us and wish you a very happy new year.

Fixed Income Markets Review

TIMOTHY W. A. HORAN

Executive Vice President & Chief Investment Officer - Fixed Income

In fixed income, the investment-grade and high yield corporate bond markets returned 14.5% and 14.3%, respectively.

Performance in the first two-thirds of the year was driven by a strong Treasury rally as concerns over a U.S. recession mounted, resulting in volatile credit spreads and a brief inversion of the Treasury yield curve in August. However the year ended on a more positive note as the Federal Reserve reduced the Fed Funds target rate by 75 basis points, reassuring investors that U.S. monetary policy would remain at least reasonably accommodative. Recession fears eased and longer dated Treasury yields gradually crept higher over the remainder of the year, resulting in a more normalized positively sloped Treasury yield curve by year end. Despite modest corporate earnings growth and rising concern around credit quality in the energy sector, credit spreads rallied into the end of 2019 as a trade agreement with China took shape. Meanwhile, the municipal bond market modestly outperformed the Treasury market on the year, returning 7.5% versus Treasuries 6.9% return. Municipal bonds continued to benefit from heightened investor demand following 2017 tax reform which capped certain tax deductions. In addition, tax-exempt new-issue supply is facing an ongoing decline given the recent prohibition of tax-exempt advance refunding. This combination of strong investor demand and reduced supply resulted in municipal yields declining to the multi-decade lows relative to Treasuries.

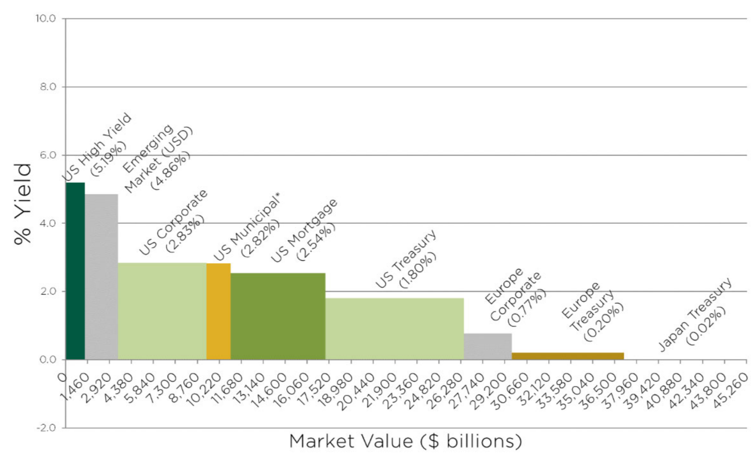
Fixed Income Market Returns*

Annual					5 Yr. CAGR
2015	2016	2017	2018	2019	2015-2019
U.S. Muni. Bond 3.3%	U.S. High Yield Bond 17.1%	Emerging Market (USD) 8.2%	U.S. Muni. Bond 1.3%	U.S. Inv. Grade Bond 14.5%	U.S. High Yield Bond 6.1%
Preferred 1.9%	Emerging Market (USD) 9.9%	U.S. High Yield Bond 7.5%	U.S. Treasury 0.9%	U.S. High Yield Bond 14.3%	Emerging Market (USD) 5.8%
Emerging Market (USD) 1.3%	U.S. Inv. Grade Bond 6.1%	U.S. Inv. Grade Bond 6.4%	U.S. High Yield Bond -2.1%	Emerging Market (USD) 13.1%	U.S. Inv. Grade Bond 4.6%
U.S. Treasury 0.8%	U.S. Treasury 1%	U.S. Muni. Bond 5.4%	Emerging Market (USD) -2.5%	Preferred 11%	U.S. Muni. Bond 3.5%
U.S. Inv. Grade Bond -0.7%	U.S. Muni. Bond 0.2%	Preferred 4.7%	U.S. Inv. Grade Bond -2.5%	U.S. Muni. Bond 7.5%	U.S. Treasury 2.4%
U.S. High Yield Bond -4.5%	Preferred -4.5%	U.S. Treasury 2.3%	Preferred -9.6%	U.S. Treasury 6.9%	Preferred 0.5%

*All returns show gross of taxes
Source: Bloomberg as of 12/31/2019

Returns will be more modest in 2020 though this owes more to the fact that markets benefitted from beginning 2019 at unusually cheap levels as opposed to any systemic weakness in fixed income markets in 2020. Rather, we expect to see a continued normalization of valuations as modest but steady economic growth provides an environment conducive to central bank efforts to continue weaning global fixed income markets off the monetary stimulus mindset prevailing in some fashion since 2008. Most impactful will be continued Chinese efforts to simultaneously ease the slowing of their $14 trillion economy while navigating a desired reduction in leverage across the public and private sectors. Meanwhile, benchmark U.S. interest rates will remain range-bound, anchored by contained inflation and a relative yield advantage among major developed bond markets. Investors will increasingly differentiate between strong and weak issuers and sectors, driving credit spreads modestly higher by year end. In 2019, dispersion between the top and bottom quintiles of the high yield bond market widened to levels not seen since the energy and commodity crisis of 2015-16. We expect this theme to continue playing out in 2020, also with the energy sector as a lead contributor to an expected uptick in the default rate from the current low of 3% toward the long term historical average of 4.3%. With modest current yield levels and our forecast assumptions, market returns could be in the low single digit range for 2020. This low return environment provides relatively little cushion to absorb underperforming securities, highlighting the importance of yield curve positioning and issuer selection decisions in an actively managed, separate account.

Relative Yields in Major Global Bond Markets



*US Municipal shown on a taxable-equivalent basis assuming 37% Federal Tax rate Source: Bloomberg Barclays Benchmark Indicies, Bloomberg LP; data as of 12/31/19

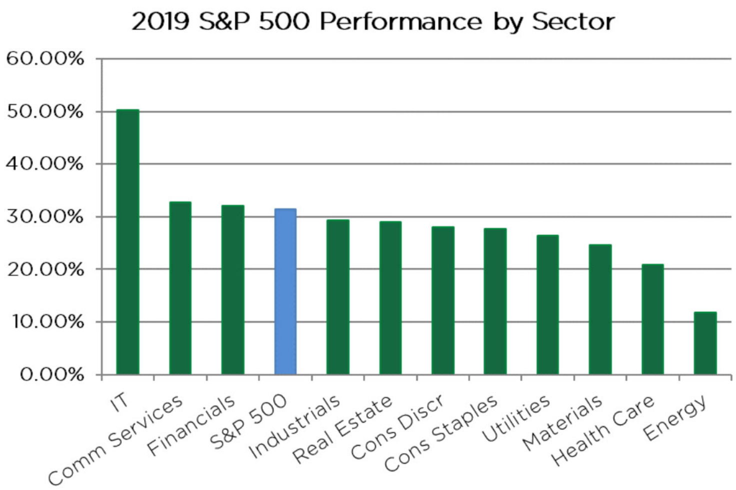
External Manager Investment Review

LOUISA M. IVES

Managing Director & Head of Manager Research

The fourth quarter of 2019 capped a year of strong performance, driving full year results for investors into levels that surpassed even the most bullish of prognosticators across asset classes. Investment performance exceeded expectations as the worries that shook markets in the fourth quarter of 2018 found resolution or moved to the back burner. With the exception of energy markets, particularly fossil fuels, it was hard to find an asset class that did not perform well. During the fourth quarter, the S&P 500 gained 9.1%, the Nasdaq 12.5%, the Russell 2000 9.9%, the MSCI EAFE 8.2%, and the MSCI Emerging Markets Index rose 11.9%. Credit Markets, too, performed well; high yield markets, as measured by Bank of America Merrill Lynch High Yield Index, rose 2.6% in the quarter and the CS Leveraged Loans Index rose 1.7%.

For the full year 2019, the gains garnered during the fourth quarter helped push markets into their best year since 2013. The S&P 500 surged 31.5%, the Nasdaq gained 36.7%, the Russell 2000 25.5%, the MSCI EAFE 22.7%, and the MSCI Emerging Markets Index 18.9%. The graphic below highlights the breadth of the strength in the returns of the S&P 500 for 2019.



Source: Bloomberg

Credit markets, too, had a very strong year as the Federal Reserve pivoted in 2019 and cut rates 3 times over the course of the year. The yield on the 10-year Treasury at year end was 1.92% compared to 2.68% at year end 2018. Corporate credit markets and high yield markets also had very strong years. Today, we have a keen eye on credit markets, and barring an unexpected economic slowdown or meaningful jump in inflationary measures, we expect the Federal Reserve to pause on any further rate cuts until at least mid year.

Fourth Quarter and Full Year Performance

We are very pleased with the performance of our External Managers during both the fourth quarter and for the full year of 2019. Thematically, growth managers continued to outperform value, as the decline in interest rates over the course of the year set the stage for growth outperformance. Our small cap growth managers led the way in 2019, delivering returns that far surpassed their relative peer group. Our mid and large cap managers also had very strong years, outperforming the strength of their indices. U.S. focused managers continued to outperform those focused on international markets although we did see nice performance coming out of our international and global managers, particularly after a challenging 2018. As Brexit finds resolution and tariffs are dialed back, we do believe that our managers both here in the U.S. and those with international exposure should continue to perform well into 2020.

The bulk of managers we partner with here at Chilton Trust focus on quality companies, balance sheets, and management teams. All attributes which we value highly and that should enable continued outperformance should markets come under pressure. Valuations are elevated for sure, although not to an egregious extent given where interest rates lie today.

As we look out to 2020, we anticipate a solid year in the markets, particularly as global growth concerns seem to have bottomed, and signs of problematic inflation measures remain at bay. Increased volatility, however, should be expected, particularly as we make our way through what could feel like a seemingly endless election cycle. Further, active management should outperform, as selection of companies that will deliver strong free cash flow and earnings will be important to avoid multiple compression. We remain confident in the managers with whom we partner and work hard to deliver strong investment returns on your behalf.

As always, we welcome any questions and we thank you for your support.

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.

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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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