

Quarterly Commentary: Fourth Quarter 2020

Introduction

PEPPER ANDERSON, Chief Executive Officer

As we reflect on 2020, few would have expected markets broadly to end the year in such a strong position. Investors who stayed the course, or perhaps added to their portfolios, were rewarded for their risk appetite. As you read this letter, you will note that this quarter's is a bit longer than our typical round-ups, indicative of the unique year that was 2020 and the importance of mapping out both risks and opportunities ahead in 2021.

We have spent the year balancing attentiveness to near-term risks and volatility with our confidence in the medium and longer-term outlook for the U.S. economy overall. As we incorporate that into our investment strategy, we

remain committed to building bespoke portfolios for each family we partner with that take into account their specific concerns and objectives.

In addition, while many families utilized the traditional year-end timing catalyst to accomplish some of their tax and estate planning goals, others chose to wait for increased clarity to come from the Biden administration. The overlay of effective planning can create another source of "alpha". Like investments, it is also one that bears regular review and discussion so we advise those focused on either their asset allocation or their planning to bring them together for a holistic perspective.

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's momentum continued into the fourth quarter as professional and retail investors became giddy with excitement over the news of the two new vaccines by Pfizer and Moderna to stop the infection of COVID-19. These vaccines, coupled with the existing stimulus both in the financial system and contemplated by Washington, were like putting a match to gasoline. The effects were dramatic on the markets, particularly the Russell 2000 and mid-cap stocks which surged 19.9% and 31.4% respectively. Vaccine optimism and a weaker

dollar also boosted international equities which returned 17.1% over the quarter, with emerging markets delivering 19.8%.

Equities

The market greatly needed to broaden out following this summer's narrowing of the FAANG stocks, which we view as very healthy for its continued advancement. The move, however, by the Russell 2000 and the SMID (small and mid-cap) stocks has been historic, and valuation

levels are flashing extremes. Many companies in this value rotation are simply inferior businesses that have been greatly impacted by market share losses and digital disruptions. They may have been too cheap this summer but at current valuation levels, we feel uncomfortable with the sustainability of the value rally. Yes, the economy is growing at a healthy rate and corporate profits are rebounding with employment trends improving, but at this point a lot of this optimism is already priced into the market.

higher level of Federal government spending given the Democratic control of the White House and of Congress. The mechanics will likely result in the Democrats being able to write a budget without needing to compromise with the Republicans, as well as being able to raise taxes through a budget reconciliation process with a simple majority rule. The question will be how much this “progressive policy pivot” will lead to aggressive spending that will in turn result in a substantial rise in inflationary expectations across the economy.

	Q4	2020
S&P 500	12.1%	18.3%
NASDAQ	15.6%	44.9%
MSCI ACWI ex-U.S.	17.1%	11.1%
MSCI EM	19.8%	18.7%
Russell Midcap	19.9%	17.1%
Russell 2000	31.4%	20.0%

Source: Bloomberg

One of the key ingredients to valuation levels for the U.S. market is the sustained low levels of interest rates which could be negatively impacted by the perceived threat of rising inflation. We don’t believe that inflation will come roaring back but the perception of it could cause a shock to P/E multiples and valuation levels.

Fixed Income

The loss by the Republicans of both Senate races in Georgia on Tuesday, January 5 triggered a substantial repricing of U.S. Treasury (UST) rates and a significant curve steepening, taking us back to levels not seen since 2017 (on a 2-year to 10-year basis). Essentially, the bond market “fast-forwarded” its concerns about inflation, not because of a worrisome inflation number released or because the Federal Reserve changed its policy mix by starting to “taper” its bond purchases early, but rather based upon a perception that there will be an enormously

We have been expecting a move up in rates from “emergency” levels experienced during the Pandemic to a more normalized level, with the UST 10-year reaching its near-term technical objective level of 1 1/8%. It will now be the challenge for markets to digest this move against the backdrop of a still challenged labor market and the service sector of our economy.

These higher yield levels attracted significant foreign as well as domestic buying interest at UST auctions of 3-year and 10-year notes as well as 30-year UST bonds. Of course, with this move up in yields, the UST market now stands out versus other global markets, where \$18 trillion remains in negative yield territory. Our question is: will U.S. yields continue to attract foreign buyers either on a hedged or unhedged currency basis, particularly given how much will need to be sold to finance the Biden agenda?

Our Portfolios

Though our investments appreciated in this rally, many of our equity positions underperformed for the quarter. This was due in large part to the market's sector rotation away from the year to date winners in order to rotate into the lagging value stocks as the market's optimism spread about a return to normalcy. As long-term investors, we don't rotate our invested positions around based on market timing but rather invest in quality businesses that can achieve sustainable long-term returns. We did in fact have many positions that did exceedingly well during the quarter but some of our larger portfolio positions underperformed during this fourth quarter rotation.

Last quarter, we talked about how well our portfolio companies had transformed their business models by improving their operating structures, rationalizing their physical plants and increasing their digital capabilities through omni-channel and direct-to-consumer offerings. These companies are not a staid group of staple-like businesses but rather a dynamic group of dominant and growing market share companies that we believe will benefit from an expanding economy, price increases and consumer spending. In current market speak, we would call most of our top twenty-five holdings 'recovery stocks.'

Granted, they aren't the current market darlings which seem to be cheap, inferior businesses that some investors hope will have transformed business models from the current stimulus. We think no amount of stimulus will turn Macy's into Home Depot. This dominance of market share is a very important element to high quality companies' long-term sustainable growth. Strong market share affords better operating margins which further enhances free cash flows thus allowing greater return of capital to their shareholder, driving equity

values higher. Even with the great returns that these companies have generated for us over the last five plus years we are still forecasting a very healthy portfolio return on our long positions for 2021.

Within fixed income, the fourth quarter of 2020 presented an opportunity for Chilton's short duration strategy. We found short-dated municipal bonds to be more attractive on an after-tax basis and focused on purchasing bonds maturing specifically in the 1-2-year range, which contributed to the outperformance.

Outperformance in both our Crossover Municipal and our Short-Term Crossover Municipal strategies benefited from our overweight tilt towards the lower quality end of the investment grade corporates spectrum as BBB spreads tightened 43 bps throughout the quarter.

Our decision to underweight preferreds relative to our index resulted in a drag of -0.73% on performance for our Crossover Plus portfolios. Preferreds contributed 1.76% to overall performance, largely attributable to QDI (tax advantaged) preferred securities. We remain comfortable with their credit risk as the quality of the U.S. banking system is strong, implying investing down in the capital structure at good valuations is appropriate.

The Chilton Select Equity Fund (CSEF) had a very strong fourth quarter and full fiscal year. The fund returned 16.0%, during the final quarter, bringing the full year return to 33.5%. The fund benefitted from very strong returns out of each manager, led by our small cap manager who had a particularly notable quarter, up 33.9%, driving full year returns to 83.7%.

The Chilton Access Fund (CAF) also had a very strong final quarter, returning 13.9%, bringing year to date returns to 19.5%. We were very pleased with the fund's performance this quarter, particularly since it carried under 80% exposure and experienced only about 75% of the volatility of the broader S&P 500. Our technology-focused manager continued to outperform broader markets, gaining over 67% for the year, as the fund was well positioned to take advantage of the acceleration of technology adoption rates brought on by the pandemic. Over the course of the fourth quarter, we made some incremental changes to the fund that we believe will position the fund well to

continue to perform well going into the new year.

The Blackstone REIT (BREIT) also had a nice quarter of returns, gaining 4.9% and maintaining a 5.6% yield for investors. For the full year 2020, BREIT returned 6.9%, demonstrating a very nice recovery from March lows. We continue to be very bullish on BREIT, rooted in the strong income and return expectations generated out of BREIT's multi-family and industrial properties. Blackstone is one of the largest property owners globally, giving them scale which drives a unique information advantage and provides them with the competitive edge to complete complex deals in a timely manner.

Our Outlook

With the beginning of the new year, much of the uncertainty that has hung over us through 2020 has finally cleared. Vaccines are being deployed with predictions of a return to normal economic activity by the second half of the year. The election has concluded, and President-elect Biden is announcing his appointments placing moderates in key positions such as incoming Secretary of the Treasury Janet Yellen. In addition, control of the Senate, with the Georgia elections behind us, is finally determined with the Democrats having the ability to break a tie with the vote of the Vice President. This clarity is a cause for relief since markets hate uncertainty. We see additional reasons for optimism in the short term for equity markets in the U.S., though not without rising risks that demand our attention.

President-elect Biden has a mandate to unify and to continue to address COVID through additional fiscal relief and consumer stimulus, but policy change mandates beyond that remain murky. With the slimmest majority in the House of Representatives for the Democrats in more than 100 years, Biden could be compelled to

play it down the middle with future policy proposals. He will have pressure from Senators Warren and Sanders and others in his party to go after more ambitious Democratic policy changes for sure, but given that Biden is no newcomer to Washington, he may navigate these challenges successfully and not veer off course. Pundits suggest that infrastructure spending, which has bi-partisan support, may be a smart place to start. It's likely that this infrastructure spending will have a green energy element to reflect Democratic priorities. Fiscal spending atop the heavy monetary stimulus already in place, as well as dovish assurances from the Fed, will continue to fuel a bid for equities. The S&P 500 now stands just over a 4% FCF yield while the U.S. 10-year Treasury offers investors 1.08%. This 300bps delta will continue to make equities attractive to the asset allocator.

What are the risks? Higher taxes and more regulation for sure, as well as the potential for signs of inflation to emerge in the second half of the year when people are fully unleashed from the confines of their homes. Currently, the U.S.

Personal Savings rate as a percentage of disposable income stands at nearly 13%. During the depths of the Great Recession, this figure was about 6%. If consumer confidence holds up, it is fair to say that consumers might unleash this pent-up savings quickly, leading to fears of over-heating and perhaps an inflation scare. This is a concept seemingly foreign to many current domestic investors.

As for taxes and regulations, the key question is pacing and amount. One narrative suggests that the structural set up of Congress with slim majorities in the House and a tied Senate will lend strong power to moderate Democrats, many of whom have espoused a gradual and delayed approach to raising taxes on America's still fragile businesses, though less gradually on "the wealthy." Another hopeful narrative suggests that some Democratic economic advisers agree that too much regulation may hamper the post COVID recovery and that it is smarter to proceed gradually. This could well prove to be wishful thinking. Democratic socialists will see this slim Democratic majority as a moment of opportunity. Will Biden's moderate tendencies stand up to these voices? Will he have the energy and the gumption to play it down the middle? It is hard to know. His long track record offers a little bit of everything for the analyst to consider. Our best guess is that this question is kicked down the road to a post COVID time, and that the real food fight starts in the second half of 2021. If it appears that meaningful change in tax policy and regulations are on the horizon, equity markets will react unfavorably as this risk has likely not been priced into equity valuations. We will be watching for signs of the President-elect's inclination to be moderate or not during his first 100 days.

Other risks loom but are tougher to quantify. In many ways, COVID exacerbated already fragile

social tensions. The fact that essential workers had to continue managing the physical economy while many information workers were able to stay safe while working remote may contribute to the sense of divide already gripping an increasingly digital society. Some of America's most vulnerable workers serve the restaurant, retail and hospitality sectors which were squarely hurt by COVID while digital employees continue to enjoy prosperity and job security. Additionally, the education hole that COVID left will be most acutely felt by children at the bottom of the socio-economic scale. Add to this fragile situation a divisive election, which some Americans believe was illegitimate, and the attempt by social media networks to silence some voices but not others -- the risk of continued social uprisings and malcontent are real. How this may or may not affect the equity markets is hard to know, but it remains a risk factor to watch.

Where do we think equity markets will go? Currently the S&P is trading at 21.5x forward earnings estimates, which depend upon robust GDP growth of +6%. Clearly, the 2021 economy will be robust with massive stimulus, re-opening activity and a strong housing cycle underway with the potential for infrastructure spending on the horizon. With the Fed setting the expectations of "lower for longer" and even the willingness to "overshoot" inflation targets if need be, we believe the equity market's P/E will stay elevated above its 15.5x historical average but will de-rate gradually. Assuming 1 multiple point contraction and applying this to estimates for 2022 S&P Earnings gives us a target range of 4,000-4,100 on the S&P, or about 7.5% above where it is currently trading at the midpoint. Because of the risks discussed, we would expect volatility and chop. Additionally, we might see a stronger first half than second if we are right about the "bill coming due" for the many rounds of COVID relief later this year in

the forms of higher taxation policy proposals. All bets are off if there is a negative development with the virus or the vaccine, but we believe the chances of this are very small.

As we think about the path forward for fixed income markets, so much will depend on the success of the economic policies of the Biden Administration. The initial challenge will be for the new administration to pass its \$1.9 trillion American Rescue Plan with significant support for COVID testing and vaccines as well as with critical direct support for cities, counties, and States that was missing from previous COVID legislation.

The Fed remains fully committed to supporting the economic recovery without prematurely withdrawing its quantitative easing and other support even if inflation temporarily exceeds the Fed's 2% ceiling. The Fed is going to continue to look for inflationary expectations and particularly wage growth to be sustainable before it begins to taper its purchases or remove accommodation altogether.

Success of the Biden Rescue efforts will likely produce higher economic growth and should likewise necessitate an upward repricing of longer U.S. Treasury rates that will impact the entire fixed income markets, including Municipal bonds. Against this backdrop, we continue to look for shorter-term rates to remain locked in a lower-for-longer framework anchored by unchanged Fed rate policies. We would, however, look for 10-year U.S. Treasury rates to move higher over the course of this year as the economic recovery broadens. Provided that this move up in rates remains moderate, and not triggered by an outright inflation shock, we will continue to look for fixed income markets to manage to reprice naturally. We expect that the attraction of our yields will ensure that foreign demand will continue to be helpful in the process.

Our fixed income strategies are positioned to go the distance with manageable durations and with high conviction credit profiles, against the backdrop of a new Biden Administration that will likely increase debt and deficit levels before succeeding in raising revenue.

With credit spreads and valuations back to levels consistent with an expanding economy, there is some concern that unexpected events such as a setback in the COVID-19 fight could trigger another market re-pricing. However, with such events difficult to predict, our base case is still for a continued gradual recovery with sound accommodative monetary and increased fiscal policy support for credit markets as well as for states, counties and municipalities.

With so much fiscal and monetary support in place, credit risk is primarily centered on the lower credit tail of the high-yield market, versus securities that we typically hold in our Crossover, Crossover Plus, Taxable, and Liquidity strategies. However, our moderate durations and exposures to high quality municipals, investment grade credit, some quality high yield and even some QDI preferreds should provide opportunities for outperformance.

The Chilton Trust strategy is to build all weather portfolios, and we have as much confidence as ever in our portfolio companies to continue to demonstrate the strength of their business models through 2021. Though many performed very well during COVID, we believe they all face bright prospects in a fully re-opened economy. We will continue looking for new ideas that meet our high-quality standards by turning over many rocks. As always, we welcome your questions, and we look forward to visiting with you each soon to discuss the year ahead.



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 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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