

Quarterly Commentary: Second Quarter 2021

Introduction

PEPPER ANDERSON, Chief Executive Officer

The second quarter of this year served as a powerful reminder of why we are anchored in long-term planning both in asset allocation decisions and investment selection. Markets have continued to be highly reactive to a myriad of policy and news datapoints, which we have generally aimed to take advantage of to make opportunistic purchases and general “tweaks” to portfolios.

While we do not advocate highly tactical asset allocation bets, we have been working to identify opportunistic investment opportunities that can complement the equity and fixed income anchors of portfolios. These investments span the risk and liquidity spectrum, so we will continue to utilize

them selectively, as they may be appropriate for each family.

Another catalyst for portfolio adjustments is often tax optimization. This is typically expressed either via the offsetting of realized gains versus losses or estate planning strategies. Over the coming months, however, we will be watching for indications of potential policy change.

Recognizing that each family’s situation and goals are unique, we look forward to engaging you proactively in this planning over the coming months. In the meantime, we wish you a relaxing end of summer.

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 equity markets continued their optimistic ride during the second quarter with the S&P 500 returning 8.5% as both the trajectory of interest rates and the imminent fear of inflation eased. There was broad participation in the continued rally globally as well with international developed and emerging markets returning 5.5% and 5.0% respectively. Fixed income markets also benefited from the rate reversal, with the Bloomberg Barclays U.S. Aggregate returning 1.8% over the quarter.

Equities

There were some interesting shifts in leadership throughout the course of the quarter. For the first

half of the quarter, value and pandemic-recovery stocks (hotels, airlines and restaurants, for example) continued the outperformance that investors witnessed during the first quarter of 2021. Suddenly, however, Mr. Market changed his tune in the middle of May, and growth stocks once again had their day in the sun, far outperforming the value/reopening stocks. Fears of runaway inflation abated, interest rates retreated a bit, and companies with good, long term growth prospects saw strong stock performance. Year-to-date, however, market returns remain dominated by performance in the energy, financials, and real estate sectors.

	Q2	YTD
S&P 500	8.5%	15.3%
NASDAQ	9.7%	12.9%
MSCI ACWI ex-U.S.	5.5%	9.2%
MSCI EM	5.0%	7.4%
Russell Midcap	7.5%	16.2%
Russell 2000	4.3%	17.5%

Source: FactSet

Fixed Income

Inflation concerns intensified significantly in the U.S. economy during the 2nd quarter with the Consumer Price Index (CPI) and Producer Price Index (PPI) ending the quarter at 5.4% year-over-year and 9.4% year-over-year respectively. Bond buying also intensified in fixed income asset classes ranging from tax-advantaged Municipals to U.S. Treasuries, Investment Grade Corporates and High Yield. Following the massive U.S.

Treasury yield-curve steepening of the first quarter, bond yields fell and spreads compressed as investors shrugged off inflation worries in favor of capturing any yield and gaining some diversification away from other risks. As a result, these inflows into fixed income seemed to affirm that the Fed was winning its battle in defining inflation as “transitory”, despite some very formidable critics, notably former U.S. Treasury Secretary Larry Summers.

The Fed’s argument was reinforced by the release in Mid-June (June 16th) of its “Dot Plot” Economic Forecast, which showed a substantial shift in Fed sentiment toward an earlier exit (than previously expected) from its highly accommodative monetary policy. That pivot triggered even more bond buying across fixed income assets, flattening the yield curve and sending the U.S. Treasury 10-Year Note to a 1.46% yield.

Our Portfolios

Equities

The Chilton portfolios enjoyed solid performance during the second quarter of 2021. Last quarter we wrote that we believed quality growth had become too cheap and lower quality cyclicals too expensive; during the second quarter, the market moved to agree with this conclusion. The decline in both interest rates and inflationary fears helped this transition.

Our long-standing and highest conviction investments, coupled with the recently purchased new investments which we added during the first quarter quality rout, provided impressive results. These new investments included companies in retail, software, payments, medical devices and other industries and were purchased at terrific prices. All of these new investments share the common theme of being superior quality business models that we believe will prove to be long term compounders.

Year-to-date, the vast majority of our portfolio companies’ operating fundamentals have exceeded our goals and continue to increase market share, margins, cash flows and earnings thus driving equity returns. A few of our core investments are lagging in stock price appreciation in spite of strong operating fundamentals. We firmly expect this to improve during the second half of the year when the market realizes the stellar growth prospects that these fine companies possess over the long term.

One of our largest holdings is a manufacturer of standard and specialty aluminum cans for beverage packaging. It produced the only negative return among our larger holdings and is suffering a case of misperception regarding new capacity additions that the company is making to meet robust future demand in the worldwide market. The new capacity additions are significant

and the costs are high, but we believe many investors are thinking this expansion is speculative rather than understanding the dramatic shift in demand for specialty cans from plastic and glass. Without capacity expansions, the company estimates there will be a 100 billion can shortfall in supply over the next five years. This new capacity results from worldwide beverage companies' need to grow and service their new product offerings like spiked seltzer, cocktails in a can, water and energy drinks. More than 65% of all new products are being launched in specialty cans which is the segment where this company dominates. We believe the incremental returns on invested capital in this new capacity will exceed their company average meaningfully. The market generally doesn't like new capacity additions which is reasonable when it is in a commodity industry or product. However, given the premiumization of specialty can pricing combined with this company's global operating network and proprietary technology leadership (which delivers cans to all the major beverage companies) we think it is money well spent. The resulting cash flow stream once this reinvestment cycle is over will power future returns for many years to come.

Recently, we were struck by a great article written by Jason Zweig who writes 'The Intelligent Investor' column in The Wall Street Journal. The title was "Danger in Setting Your Investing Sights Too High" and it surveyed 750 individual investors who expected to earn 17.3% after inflation this year.¹ They were then asked the question: "Was a 17.3% return too high for the future?" Mr. Zweig commissioned Wharton Research Data Services to analyze how many stocks in a 3,790 universe actually met those returns over the last ten years. The answer is that only 14% of all stocks earned returns equal to 17.5% or more and a fully 22% earned negative returns. Now while prior returns are no guarantee of future returns, when we look at the list of winners it is dominated by quality business models that possess the attributes for

continual success. As long as the business model stays relevant and continues to dominate and take market share, it's a pretty good bet it will perform well and beat the market averages of 7.1% after inflation since 1926. The vast majority of our long investments have met or exceeded the 17.3% threshold and, even though we have no crystal ball for the future, we feel confident that our long investments have the characteristics to successfully generate continued superior returns.

Our multi-manager solutions experienced strong rebounds in the second quarter as the market once again began to recognize and reward quality. The Chilton Select Equity Fund (CSEF) returned 11.5% over the quarter, bringing year-to-date performance to 13.5%. The managers that underperformed in the first quarter saw a meaningful rebound, as market sentiment shifted during the quarter. The most pronounced recovery within the fund was from its small cap manager, which was down a bit during the first quarter, but advanced 14.9% during the second quarter. This is a prime example of a fund that underperformed during the first quarter, but they stayed the course, took advantage of price weakness to size up high conviction names, and were rewarded with a strong rebound in returns. The other managers in the fund also produced an attractive quarter of returns, and we continue to have very solid conviction in each of the managers within the fund.

The CTC Access Fund (CAF) also experienced a rebound in the second quarter, returning 7.5% with about 80% net exposure. The fund had a challenging first quarter, impacted largely by a very difficult quarter for our technology-focused hedge fund, which we discussed in our first quarter letter. Fortunately that manager had a much stronger second quarter, returning 10%, as the technology names in which it invests enjoyed a reprieve in the second half of the quarter. We

¹Zweig, Jason. "Danger in Setting Your Investing Sights Too High." *Wall Street Journal*. July 3, 2021.

were very pleased with the broad dispersion of strong performance by managers in the fund, reflecting good security selection and a nice balance of returns. While the fund year-to-date returns lag our near-term expectations, we remain confident in the long-term growth trajectory of the fund.

Fixed Income

In the second quarter of 2021, investors continued to focus on economic recovery and preparation for the path to normalization. The market continues to speculate the Fed's next move, potentially anticipating the reduction of policies that were implemented as a result of the impact of COVID-19.

Throughout the quarter, investor concerns of slower economic growth with higher inflation caused a flight into U.S. Treasuries. The U.S. Treasury curve flattened as the Federal Reserve communicated a continuation of an accommodative policy, short covering of reflation trades, and strong technicals. The rise in rates at the short end of the curve was most pronounced among two- and three-year U.S. Treasuries while the ten-year rate fell 30 basis points.

Our Chilton Short-Term Taxable outperformed its benchmark on a net basis by 4 basis points. The strategy's overweight exposure to both the finance and technology sectors and exposure to lower-quality investment grade securities contributed to outperformance, slightly offset by underperformance in the composite's government exposure. We increased the strategy's exposure to chemical and manufacturing sectors throughout the quarter. With corporate spreads remaining very tight in the A-rated range, we also increased our BBB-rated holdings. We kept the duration slightly over a year throughout the quarter, capturing attractive roll-down between 2 and 3-year maturities .

The municipal market benefited significantly from the drop in Treasury yields. Despite very tight Municipal/Treasury ratios, the market continued to receive strong interest from retail investors, mutual funds and institutional investors. Improving credit fundamentals for States and the anticipation of higher individual and corporate tax rates contributed to the municipal market's positive total returns. Demand for tax-advantaged securities remained strong, aided by the quarter's elevated coupon reinvestments and bond maturities.

In the second quarter of 2021, our Chilton Taxable Composite outperformed its benchmark on a net basis by 49 basis points, delivering a net total return of 0.76% as compared to the Bloomberg Barclays 1-5 Year Government/Credit Index 0.27%. The strategy's sector allocations, which are overweight industrials and technology, coupled with its rating allocations, which are overweight BBB-rated securities, led to our outperformance.

U.S. Treasury rates were volatile throughout the quarter. A majority of the yield increase that the market witnessed in the first quarter was reversed in the second quarter as "long term" inflation fears subsided. Although inflation data reached its highest levels since 2008 as the Consumer Price Index reached 5.40% year-over-year, the market viewed these numbers as "transitory". The change in market sentiment towards temporary versus long term inflation prevented rates from rising.

As the economy continued to reopen, economic data remained strong, benefiting corporate issuers in both the A-rated and BBB-rated sectors. Spreads got close to historical lows as BBB-rated corporate bonds tightened nine basis points while A-rated bonds tightened seven basis points.

Alternatives

Equity hedge funds, which had a challenging first quarter, rebounded well as markets broadened

from value/recovery names to include high quality growth names. The first quarter's irrational price behavior of companies with poor balance sheets and questionable prospects abated, benefiting short books. Our long-only managers also generated strong returns during the second quarter of 2021, generally outperforming their relative benchmarks. What we were most pleased to see during the quarter was the experience of our managers benefitting client portfolios: the portfolio managers with whom we partner, particularly those that underperformed during the first quarter, were patient and took advantage of opportunistic entry points to lean into their highest conviction ideas, setting up portfolios for strong future returns.

Our REIT manager had a very strong quarter, returning 7.4% for investors. This brings year-to-date performance to 12.0%, with a 5.2% annualized yield. Their performance to date has been driven by the very strong re-leasing spreads on their industrial properties, coupled with strong occupancy and rental growth metrics in their multi-family properties. The fund made a number of acquisitions during the quarter, particularly in single family homes, an affordable housing portfolio and a portfolio of 28 very high quality data centers which have very pronounced and long term tailwinds as the world continues to move online. Our high conviction in this manager remains unchanged.

Our Outlook

After a stunning year-plus economic recovery from the lows of the pandemic, mixed economic readings have begun to signal that the white-hot pace of re-opening is giving way to something new. The June ISM readings, the recent employment report, certain housing metrics, and rising gas prices have all disappointed expectations. The 10-year Treasury yield has pulled back from 1.75% at the end of March to 1.25% in early July highlighting how markets have moved past fears of over-heating and are now focused on potential slowdown. Equity markets are showing some "second derivative" slowing, as seen with the equal weighted S&P underperforming the market cap weighted S&P index this quarter as large technology growth stocks resumed their leadership position amidst falling interest rates.

When we peel back the onion to examine what is really going on, we conclude that the U.S. economy is digesting the strong spring of re-opening, but that the structural forces for sustained positive economic growth remain in

place largely because of ample household liquidity combined with positive confidence. US Personal saving as a percent of Disposable Personal Income sits at 12.4% as of June, nearly 300bps above its historic median. The surge of demand for travel, entertainment, durable goods, autos, housing and other pent-up consumption that businesses of all sizes encountered this spring quickly led to labor shortages, supply shortages, and price increases. In response to these conditions, consumers are rationally prioritizing what goods and services they can delay given price spikes. To conclude that these mixed readings are indicative of a coming economic slowdown seems wrong to us.

We know that the stock market is a discounting mechanism which looks forward, anticipates, and tries to underpin valuation to a set of forward assumptions. As investors grapple with the pace of future economic activity, the equity markets have slowed their ascent. We think this may continue until we are able to see more clearly what path awaits, especially as the current

valuation of the market relies on continuing strong economic growth and low interest rates.

S&P estimates for 2021 now stand close to \$200 implying a P/E ratio of approximately 21.5x. With the 10-year Treasury yield having pulled back to ~1.3%, we could envision the multiple expanding to 22- 23x if rates stay low, though it is unclear that they will. This suggests that the S&P may have less than approximately 5% upside in this calendar year. With nearly full valuation at the index level, stock picking will be of paramount importance to generate returns. In addition, policy risks, virus variants and geopolitical factors are cause for concern. On the margin we are less worried about rising taxes and new variants, but more worried about relations with China.

We continue to expect Fixed Income markets to be well supported by investors seeking yield, capital preservation and tax-advantage (through the municipal market). The Preferreds of systemically important financial institutions will also continue to be a focus in our Crossover Plus Strategy to harvest superior yield—even as the Federal Reserve looks to “taper” (i.e. reduce) its monthly \$120bn purchases of U.S. Treasuries and mortgages to support economic recovery. With a well-signaled tapering, we would expect a gradual resumption of the steepening of the yield curve. Hence, blending some investment grade corporate bonds and, where possible, even adding some high yield securities with tax advantaged municipals should continue to be our focus as we navigate the normalization of interest rates by the Federal Reserve.

Never say never, but large tax and spending legislation seem like lower odds than just a few months ago, which is favorable for equity markets. The 2021 budget deficit is forecast to be the second highest since 1945 (the highest was logged in 2020) which has fiscal hawks of both parties concerned. The failed bi-partisan infrastructure bill that was undone nearly as quickly as it was announced has diminished the

odds of cooperation. The limits of the reconciliation process and the position of key swing voters like Senators Manchin and Sinema, who favor less spending and taxes, suggests we will end up with more moderate legislation, though the next few months will be telling.

Investors are concerned about the risk of removing excess monetary liquidity with a fully reopened economy, and all eyes are on the late August Jackson Hole monetary conference for future direction. Chairman Powell has recently asserted that meaningful tapering is still off in the future, but maybe less far away than it was before. As this massive excess liquidity moves to exit the system throughout late 2022 and into 2023 and beyond, excessive valuation bubbles within the market will unwind. Our strategy to manage through this period will be to forecast lower multiples in the out years than in the present, to stick to our discipline around exiting fully valued stocks that do not offer enough upside from current levels, and to continue looking for high quality names that are still attractively priced.

The rising incidence of the Delta variant of COVID -19 in many geographies is cause for concern, but the strong resilience of the vaccine in keeping both hospitalizations and deaths low in countries like the UK where the variant has spread suggests that well vaccinated countries like the U.S. should be able to manage without future shutdowns. If a new variant emerges against which the vaccine does not protect, we may see temporary economic restraint while a booster vaccine is manufactured and distributed. The incredible scientific learnings from messenger RNA technology which underpins both the Pfizer-BioNtech and Moderna vaccines should help to mitigate this risk.

One risk that is especially hard to measure but is real is U.S. relations with China. President Xi is ambitious in his plans to build China's global strength, and he is exerting more state control

than his predecessor. Many private Chinese businesses are being investigated, de-listed and brought directly under the control of the Chinese government. Heavy handed Chinese governance of Hong Kong is chasing out foreign investment. Talk about reunification with Taiwan from President Xi has caught our attention. Taiwan is a U.S. ally and a Democratic power in addition to being the hub of manufacturing for semiconductors and other critical electronic components that are needed worldwide. The U.S. will need to manage this rising geopolitical risk with great care.

We remain as dedicated as ever to our core process of fundamental stock selection, deep and continuous due diligence, and remaining true to valuation discipline. While the macro backdrop suggests less tailwind at the back of equities going forward, we are glad to have a process that does not rely on market momentum.

We thank you for the continued confidence you have placed with us. We wish you a happy summer and look forward to seeing you in person soon.



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 the Vice Chairman of the Metropolitan Museum of Art in New York City, Chairman Emeritus of Greenwich Academy as well as The Darien Foundation, and Trustee Emeritus of the Robinhood Foundation. Mr. Chilton also serves as the Chairman of the Mather Homestead Foundation located in Darien, CT and Trustee of the Classical American Homes Preservation Trust.

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



Jennifer L. Foster is a Portfolio Manager and Co-Chief Investment Officer — Equities who has worked at Chilton for 24 years. Jennifer joined Chilton in 1997 as an equity analyst and later became Director of Research and then Assistant Portfolio Manager. During her tenure at Chilton, Ms. Foster has served on the Risk Committee, the Executive Committee and the Board of Directors. Before joining Chilton, Jennifer worked at GE Capital as a financial analyst. 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, the Mather Homestead Foundation, and a former trustee of 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 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 Abnett & 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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