

Quarterly Commentary: Fourth Quarter 2021 and 2022 Outlook

Introduction

PEPPER ANDERSON, President & Chief Executive Officer

2021 was witness to a continuous redrawing of market and economic uncertainties against a backdrop of confidence in the underlying strength of each. Questions on taxes and public policy gave way to a focus on inflation and Fed policy. Concerns about the path and impact of COVID-19 were constants with the proverbial devil being in the details.

As the facts and finer points around the market, economy and the virus evolve, we continue to see cause for optimism and view volatility as an opportunity. Of course, the amount of volatility that you may find

comfortable is highly personal, and what enables you to sleep well at night while still achieving your investment objectives is as much art as science.

Since our founding, Chilton Trust has been committed to bringing you the tools to create and implement your financial plan in a way that is transparent, flexible and, most importantly, designed specifically for you. As always, we are grateful to be your partner in these endeavors and for your continued confidence in Chilton Trust.

Market Overview

RICHARD LOCKWOOD 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

Equities

2021 proved to be a strong year for equity markets, led by very strong returns in U.S. markets. For the year, growth outperformed value, and large cap names generally outperformed their smaller cap brethren. International developed markets produced returns that were solid but more moderate when compared to the U.S.. Emerging Markets lagged, declining in value over the course of the year.

The S&P 500 surged 11.0% in the final quarter of the year, pushing full year returns to a very strong 28.7%. For the first time in quite a while, the Nasdaq underperformed the S&P 500, but still generated a solid 8.9% return in the final quarter of the year, with full year returns coming in at 21.4%. International markets, as measured by the MSCI All Country World Ex-U.S. Index, rose 3.1% in the fourth quarter, bringing year to date returns to 12.6%. Emerging markets proved more challenging, as the MSCI Emerging Markets Index fell -1.3%

in the quarter, and 2021 returns dropped 2.5%.

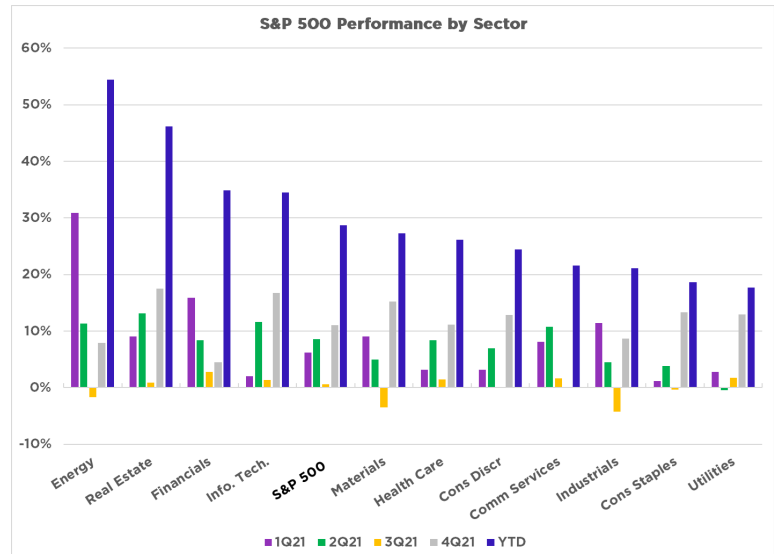
The composition of returns during 2021 shifted from recent years, as investors shifted their focus from a zero-interest rate environment to an inflationary one with a clear line of site on rising interest rates. Decomposition of the returns in the S&P 500 reflect a decidedly less benign inflationary backdrop, with commodities/energy, real estate and financials driving the bulk of returns for the year.

Fixed Income

Rates throughout the yield curve in the fourth quarter grappled with the challenges of growing evidence of inflation both in consumer and in wholesale prices and even some elevated wage pressures.

While questions remained about whether inflation should be thought of as “transitory” because of the acute supply disruptions from the COVID pandemic, the case was building throughout the fourth quarter for a “full blown pivot” in Fed policy not only to accelerate a tapering—an end to Quantitative Easing—but also to bring forward an actual start to rate normalization and an outright reduction of the Fed’s \$9 trillion balance sheet.

Markets needed to price how soon and under what conditions the Federal Reserve would ultimately undertake a “lift off” and begin a rate tightening cycle to dampen growing inflationary pressures. The market got some much needed “forward guidance” in the



release at the December Fed Meeting of the “Dot Plot,” the Fed Statement and Chair Powell’s press conference that followed: each paved the way for a lift off in rates as early as the March 2022 meeting.

Ultimately, short-term instruments were the primary shock absorber of the triumvirate of concerns: inflation, tapering and likelihood of a Fed liftoff. In the start of the quarter, the 2- and 3-Year Treasuries yielded 0.27% and 0.51%, respectively. By the end of the quarter, both tenors had almost doubled in yield, offering 0.73% and 0.96% at year end. The 1-Year U.S. Treasury lagged the pickup in yield of longer tenors but eventually moved from a low of 0.08% to touch a high of 0.38%.

Regarding the municipal market, tax advantaged issues continued to be very expensive relative to both U.S. Treasuries and corporate bonds, and this relative value was especially highlighted in the front end of the market. The municipal market witnessed high demand, with a majority driven by the concern of an evolving tax plan.

Our Portfolios

Equities

For the year, many of our top long positions were up significantly. In reviewing our core positions for both the quarter and the full year, we were pleased with the operating results that our portfolio companies exhibited throughout a very difficult business environment. Challenging times test the characteristics of great business models, and yet the performance of our companies' is a testimony to the durability of their business models.

We have conviction that our portfolio companies will continue fundamentally to outperform and to generate great returns in the future. We further believe that these wonderful businesses will continue to grow organically, take market share from their competitors and rationalize their cost structures in a way that will provide long-term benefits to their revenue and earnings streams. As long-term investors, we are always mindful of valuation and don't subscribe to the "cut your flowers and water your weeds" approach to capital allocation. However, during the quarter we did prune some positions where we felt that the future long-term appreciation was already captured in the current valuations.

As we look into 2022, we firmly believe that dependable revenue and earnings growth will be important in setting our expected return profile for the coming year. We have lowered our target PE multiple assumptions in order to be conservative with our forecast, but given the high level at which our companies are performing, we strongly

The Concept of "Hope"

Not all sectors of the market performed well in the fourth quarter of 2021, most especially companies like Peloton (which we do not own) that have young and unproven business models. We believe that the Peloton meltdown is the opening salvo in the dramatic repricing of concept stocks that lose money. Such companies have huge, albeit exaggerated total addressable markets and are valued at price-to-sales multiples of 10x next year sales or more.

When the Federal Reserve was printing money, the risk trade was to pay any amount of money for these concept, or more aptly "hope," stocks that the street labeled "disruptors." The thought was that they would eventually grow into their valuation and generate a stellar ROIC over the next 10 years. In our opinion, this is a dangerous way to invest. The few companies that might succeed are the exceptions rather than the rule, and the market seems to have forgotten that even high growth company PE multiples tend to compress in the years following dramatic revenue growth.

~Richard Lockwood Chilton, Jr.

believe that our portfolio remains very attractive over the next year.

Fixed Income

To be defensive within our Liquidity Management strategies, we structured Chilton's Short-Term Strategies to target 50% of the holdings to mature inside of one year, thereby creating reinvestment opportunities as the market continues to price in future rate hikes. We complimented this overweight allocation inside of 1 year with 30-40%

maturing inside of 2-year to capture attractive rolldown with the remainder of the portfolio maturing 2-3 years. The securities maturing beyond 2 years were used as a tool to increase overall portfolio yield, alongside an increased allocation to BBB-rated corporate exposure. We made additional sector adjustments by increasing exposure to financials, utilities and healthcare, and within our Crossover strategy we increased corporates weighting to 40% from 30% to address the upward pricing pressures in municipals. Additionally, we utilized pre-refunded and general obligation bonds to bolster liquidity.

Within our Tax-Advantaged strategy, we utilized the secondary market to maintain a neutral duration relative to the Bloomberg Managed Money (1-5 year). In the new issue market we focused on A-rated issuers with strong credit fundamentals and smaller deals that tend to get overlooked due to their size. Within the Crossover Strategy, we also tactically increased our weighting to Qualified Dividend preferred securities (QDI).

Within our Taxable strategy, as spreads widened in both investment grade and high yield and volatility picked up, we bought credits that we felt had become undervalued. Buying in the intermediate part of the U.S. Treasury yield curve also brought opportunity as the 5-year U.S. treasury reached its highest level since February 2020, at 1.34%. We favored names in the TMT sector (technology, media, telecommunications) and continued to add “rising start” high yield credits such as Ford Motors, Occidental Petroleum and Avantor. Additionally, we added Preferred Securities for added yield, including

systemically important financial institutions as well as fixed-to-fixed structures with a coupon reset to the 5-year U.S. Treasury to help hedge against potential rate increases.

External Managers

In public markets, the fourth quarter was a bit of a mixed one for our External Managers. Our equity hedge fund managers were generally not able to maintain pace with the 11% move in the S&P 500 and underperformed. Many ran into pronounced headwinds driven by sheer capital flows as investors exited more growth-oriented positions in favor of more value-oriented positions, with financials and energy positions driving the bulk of index returns. Further, our hedge fund managers adopted a bit more conservative stance with lower net exposure throughout the fourth quarter, exacerbating their inability to keep pace with the market for both the quarter and full year 2021. Our long only managers fared better, producing solid returns for both the quarter and the full year, with the exception of small cap growth, which came under significant pressure during the fourth quarter, muting full year returns. Technology growth names also suffered a very difficult quarter, capping a disappointing year for our managers with pronounced technology and growth exposure.

Private markets delivered a very strong year of returns in 2021, benefitting our managers with exposure in the venture and private equity markets. There continues to be an abundance of opportunities in private markets for investors, driven by the wave of technological innovation that is accelerating

the pace of change in virtually every industry. We are very pleased with the strength of our partners accessing private markets and plan to remain highly selective while continuing to add opportunistically to this exposure.

Our real estate exposure, achieved largely through the Blackstone REIT, had another solid quarter of returns, closing a very strong year of returns for investors. Performance continues to be driven by strong re-leasing spreads on their industrial properties, coupled with strong occupancy and rental growth metrics in their multi-family properties. Our high conviction in BREIT, both as a solid diversifier and as an inflation

hedge, remains unchanged. The company continues to see very favorable demand dynamics for both its multi-family and industrial properties which bodes well for continued strong performance trends. The Blackstone Private Credit Fund also produced a very solid year of returns, generating over 12% in yield in 2021. As the private credit space continues to expand, our conviction behind the Blackstone credit solution remains strong. Their scale and flexibility enable stronger pricing, and their conservative underwriting practices, coupled with the fact that their loans are floating rate, creates a nice source of inflation-protected yield for investors.

Our 2022 Outlook

The markets are awash in uncertainty. How much inflation is structural? How much will the Fed have to tighten this year? Will Omicron be followed by more variants? When will supply chain shortages resolve? As we have said before: markets hate uncertainty. So, it is not surprising that equity markets have started 2022 in the red, with the brunt of the volatility being suffered by richly valued stocks or any company delivering less-than-stellar news.

In times such as these, rather than wallow in uncertainty, it is useful to take an inventory of what we know to be true:

- U.S. labor markets are tight and jobs are plentiful, though Omicron is causing temporary absenteeism;

- Domestic household balance sheets are generally strong;
- U.S. banks are healthy with ample capital cushions, and credit is accessible for cash-flow proven businesses and consumers;
- Healthy consumers and capital accessibility are providing strong support for retail and home repair businesses;
- Entry-level housing stock is in short supply after a decade of under-investment, and ex-urban migration patterns continue since COVID-19 began;
- Peak liquidity (both monetary and fiscal) is probably behind us, and speculative

investments may therefore have reduced access to capital going forward;

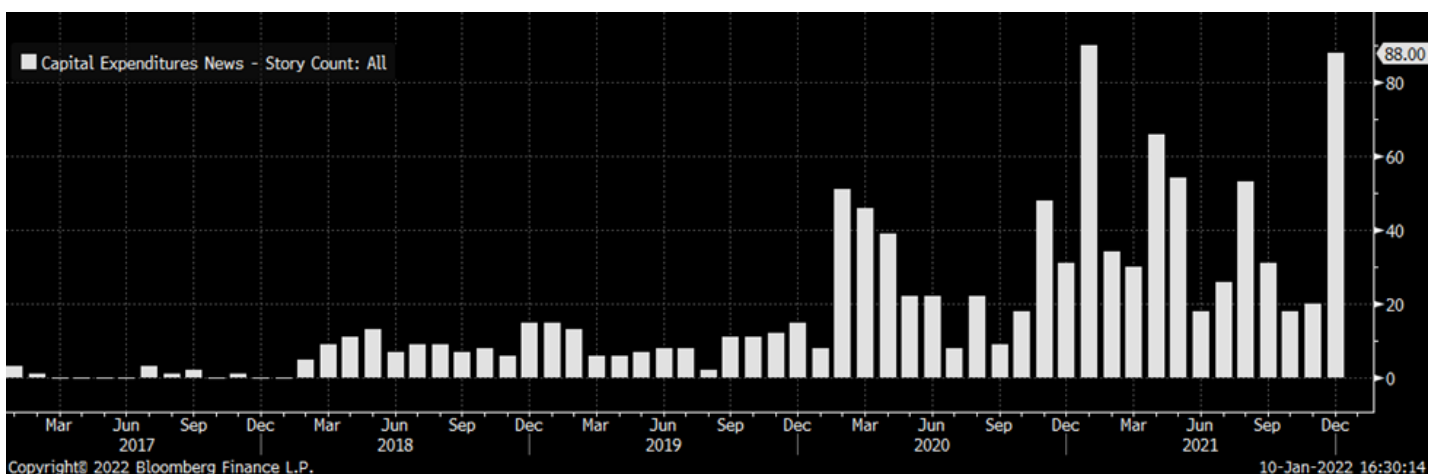
- Valuation for the S&P is full on a Price/Earnings basis but cheap on an Equity Risk Premium basis;
- Credit spreads are low by historical standards which is an important measure of economic health;
- A Capex cycle is underway in the U.S., spurred by “re-shoring” efforts to appease supply chain pain points and shipping challenges experienced over the last few years;
- China is managing a less healthy economy with pockets of excessive leverage by trying to stimulate domestic consumption, possibly at the expense of foreign (U.S.) goods.
- Signs are emerging that some inflation is transitory but precisely how much is difficult to assess;
- The future course of the virus is hard to predict, but Omicron appears less deadly,

though more virulent, than past variants. Vaccines are working not only to control viral spread but also—and importantly—to contain the risk of hospitalization and death; and

- Public health policy appears to be evolving into a view of the virus as endemic, and we are hopeful that once Omicron passes, the economy will resume robust activity, alleviating supply shortages and easing inflationary pressure.

From this laundry list of “known” market factors, two key risks are apparent: the pacing of Fed action and geopolitical risk with China.

Regarding monetary policy, we continue to believe that the Fed will proceed slowly with rate hikes knowing that there is still a fragile economy at hand due to the virus and concurrent, waning fiscal stimulus. Though the Fed has removed “transitory” from its statements about inflation, it does seem still to acknowledge that inflation will tame as the year progresses. Our base case assumes



slow and steady Fed action with good communication throughout.

Regarding China, we are cautious on U.S. Companies that depend on China for sales especially in industries with abundant local competition. As noted above, as China tries to exert more control regionally and economically within its own borders, the casualty to some extent may be U.S. goods.

The remainder of the “known” list is largely positive and drives our enthusiasm for the U.S. economic outlook and equity markets. Our hopes are underpinned by the solid state of the consumer and the health of domestic banks—the anchor, however, of our positivity is the current capex cycle.

The U.S. has not experienced a meaningful capex cycle for over 25 years. Though the pace of the current cycle will be tempered by labor and skill availability for certain, more automation will help to overcome these challenges. The willingness of managers to invest in North American manufacturing is evident, and news stories about “Capital Expenditures” show a steady uptick. We believe the current capex cycle will have a multiplier effect within the domestic economy and will propel solid U.S. GDP growth this year.

All of this amounts to a healthy backdrop for companies that are not dependent on speculative capital for funding and even better for those that are high quality business models, proven earnings and deep moats keeping competitors and disruptors at bay.

We like our positioning with companies that have organic growth opportunities, generate abundant cash flow and are not overly levered.

At a broad market level, we forecast the 10-year to move just above 2% this year, which implies 20.5x P/E on S&P future earnings. Using a range of S&P Earnings projections for 2022, we derive an S&P Target of 5000-5200 by year end.

While the implied return is somewhat modest from where the market started the year, we do believe 2022 could be a year marked by higher than average volatility. In an election year atop Fed tightening and an evolving virus, we expect choppiness much as we have seen in the start of the year to continue episodically. With confidence in our equity research, we will use this volatility to gain attractive entry prices for prospective, new investments. We believe such a strategy of high-quality compounders will outpace the volatile returns of the broad equity market in a coming year that will be anything but boring.



Richard Lockwood Chilton, Jr. is the Founder, Chairman and Chief Investment Officer of Chilton Trust Company. Since founding Chilton Investment Company with his Flagship Strategy in 1992, Mr. Chilton has built a broad organization and a team of investment professionals focused on long term capital growth. The Chilton Flagship Strategy has generated impressive and consistent returns with moderate volatility since inception. In addition, in 2010 Mr. Chilton founded Chilton Trust Company which is a nationally chartered broad-based wealth management trust company focusing on services to high net worth individuals and families. Mr. Chilton is vice chairman of the Metropolitan Museum of Art, trustee emeritus of the Robin Hood Foundation, chairman emeritus of Greenwich Academy and a trustee of Classic American Homes

Preservation Trust.

Prior to forming Chilton Investment Company, Mr. Chilton was a managing director at 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 and received his B.S. in Finance & 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 as an equity analyst and later became Director of Research and then Portfolio Manager. During her tenure at Chilton, Jennifer has served on the Risk Committee, the Executive Committee and the Board of Directors. Before Chilton, she worked at GE Capital as part of GE's Financial Management Training program. Jennifer 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 currently serves as the Chair of the Board of Trustees at St. Luke's School in New Canaan, CT, and as a trustee for the Mather Homestead Foundation in Darien, CT. Jennifer is married and has three children



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 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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