



CHILTON

TRUST

First Quarter 2023

Quarterly Commentary

An aerial photograph of a lush green field, possibly a golf course or park. A single tree stands in the middle ground, casting a shadow. In the lower right, a person is visible, possibly a golfer, near a circular path or hole. The field is divided into sections by faint lines, and the overall scene is bathed in bright, natural light.

Introduction

Pepper Anderson – President & Chief Executive Officer

As you read the commentary to follow, you will note an overall sentiment of cautious optimism. While there are many uncertainties overhanging markets, we see light at the end of the tunnel. While this is one reason for optimism, it is by no means the only one. We are hopeful the volatility that will surely accompany this final phase will provide opportunities for investors across markets.

The constant influx of news and changing market sentiment requires us to reaffirm our views on markets and individual holdings every day. By lifting our focus to the horizon rather than the day, it can sometimes lead us to make changes in portfolios; but more often than not, it results in a continued confidence in our positioning.

As successful investors, we are acutely aware of the difference between being patient, but not complacent, and steadfast rather than stubborn. As always, we are grateful for your confidence in our ability to recognize that difference and for the opportunity to be your partners.

Market Overview

A Bank Collapse, a Rally, and A Ways to Go.

The first quarter of 2023 kept investors on their toes but ended well into positive territory. Stocks rallied with the hopes of stubborn inflation relenting to the pressure of aggressive Fed rate hikes. March, however, brought the unfortunate ripple effect of such aggressive tightening: the failure of regional banks which required a sudden shift in expectations of what is to come from the Federal Reserve for the rest of 2023. While Fed and government action was able to prevent panic contagion, markets were unsteady, and volatility persisted throughout the first quarter. The S&P 500 gained 7.5% during the first quarter, and the Nasdaq's advance was even more pronounced, surging 17%. International markets also had a strong first quarter, as the MSCI All Country World Ex-U.S. Index gained 6.9%. Emerging markets also had a solid quarter, though not as strong as developed markets, and the MSCI Emerging Markets Index rose 4.0%.

As we look forward, we acknowledge the high degree of uncertainty that exists in the fundamental view of the economy, earnings growth, and inflation. Even though the present banking crisis is in no way like 2008, it is also not over, as many of the regional banks are upside down on commercial real estate exposure, with an estimated 70% of all new CRE loans over the last five years emanating from regional and smaller banks. Our base case is that we are headed for a mild, white-collar recession that will affect the S&P earnings and that is not fully discounted in both current sentiment or the current market levels.

Richard Lockwood Chilton, Jr.

Chairman & Chief Investment
Officer: Equities

Timothy W. A. Horan

Executive Vice President & Chief
Investment Officer: Fixed Income

Jennifer L. Foster

Co-Chief Investment Officer
& Portfolio Manager: Equities

Louisa M. Ives

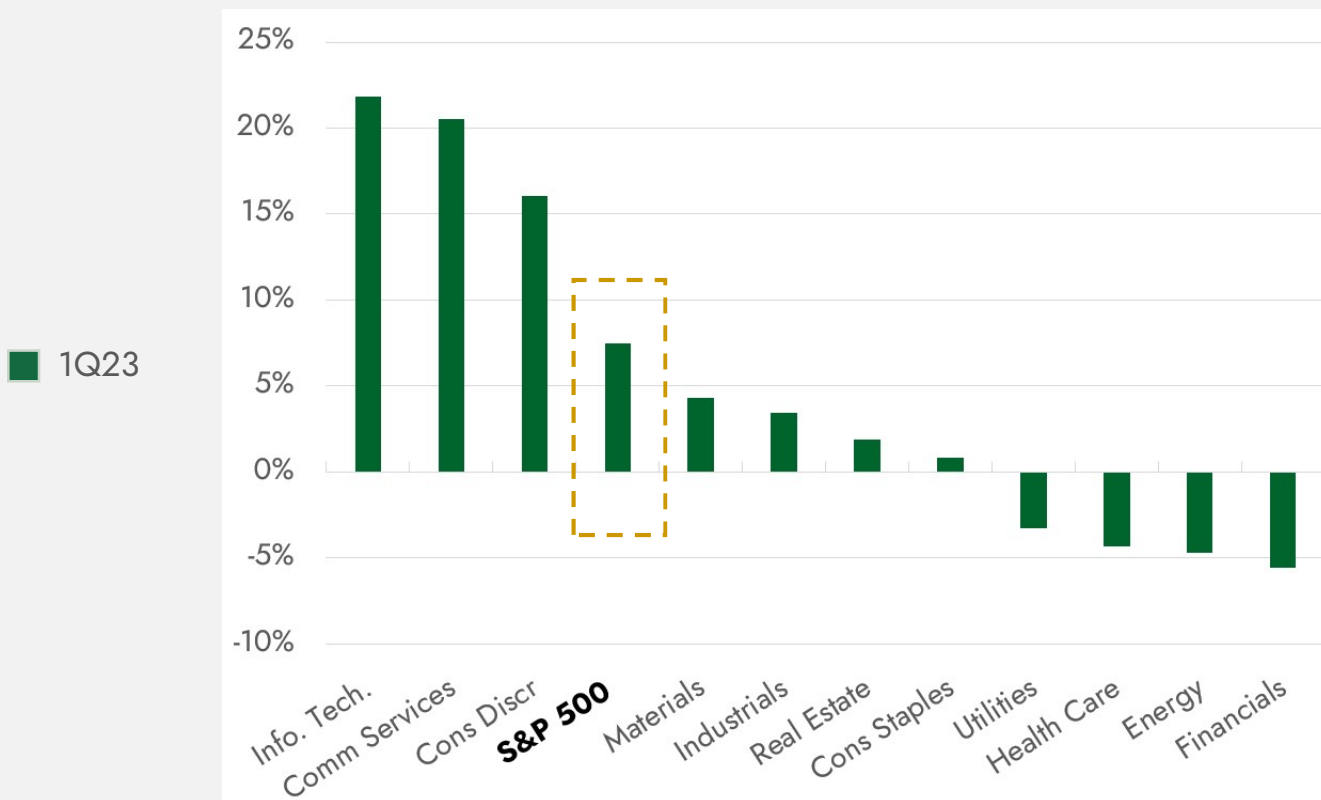
Managing Director & Head of
Manager Research

Equity Markets

The tone of the equity markets improved dramatically during the first quarter as investors eagerly anticipated the decline of inflation and the eventual pausing of interest rate increases by the Federal Reserve. Even though the markets declined in March due to the banking crisis, the Nasdaq soared as investors found safety in Big Tech, due in large part to their cash-rich balance sheets and their robust cash flows coupled with their secular growth, which is now enhanced by the well-received prospects for artificial intelligence. The Big Tech dramatic out-performance had a huge effect on the S&P 500 as 10 names (all tech) contributed 89% of the 7.5% gain in the S&P 500 returns. In fact, 68% of the gain was contributed by Apple, Microsoft, Nvidia, Tesla and Meta.

Further proof of this is evidenced by the performance dispersion between the S&P 500, which is cap weighted, and the S&P 500 equal-weighted index which was up just 2.4% for the quarter. Investors saw a reversal of some of the dynamics that played out in 2022; as concerns about the pace of rising rates abated, growth names outperformed their value brethren to a wide degree. Decomposition of the S&P 500's sector returns during the quarter elucidates this point, as illustrated below.

S&P 500 Performance by Sector



Fixed Income Markets

With the Fed's recent shift in policy, we see a rising risk of stop-and-go inflation readings which could pressure the Fed to stay higher for longer and create tough macro-economic conditions for the near- and mid-term.

The quarter began with the U.S. economy appearing to be on solid footing, with a particularly strong labor market. Although much had been speculated about a pending recession—soft landing, hard landing, or no landing at all—consumer spending and sentiment remained strong, with businesses continuing to adjust to a higher interest rate environment. For the Federal Reserve, the focus remained on raising rates to bring down inflation. Following its 0.5% move up in the Fed Funds Target Rate at the December meeting, the Federal Reserve felt confident enough to step-down to a quarter-point move higher in Fed Funds at its February 1st meeting. However, almost immediately more robust data points—notably February's Non-Farm Payroll with 311,000 new jobs added—gave the Fed some discomfort in its recent “stepdown” and prompted Chair Powell to signal that a half-point move was likely at the March Meeting.

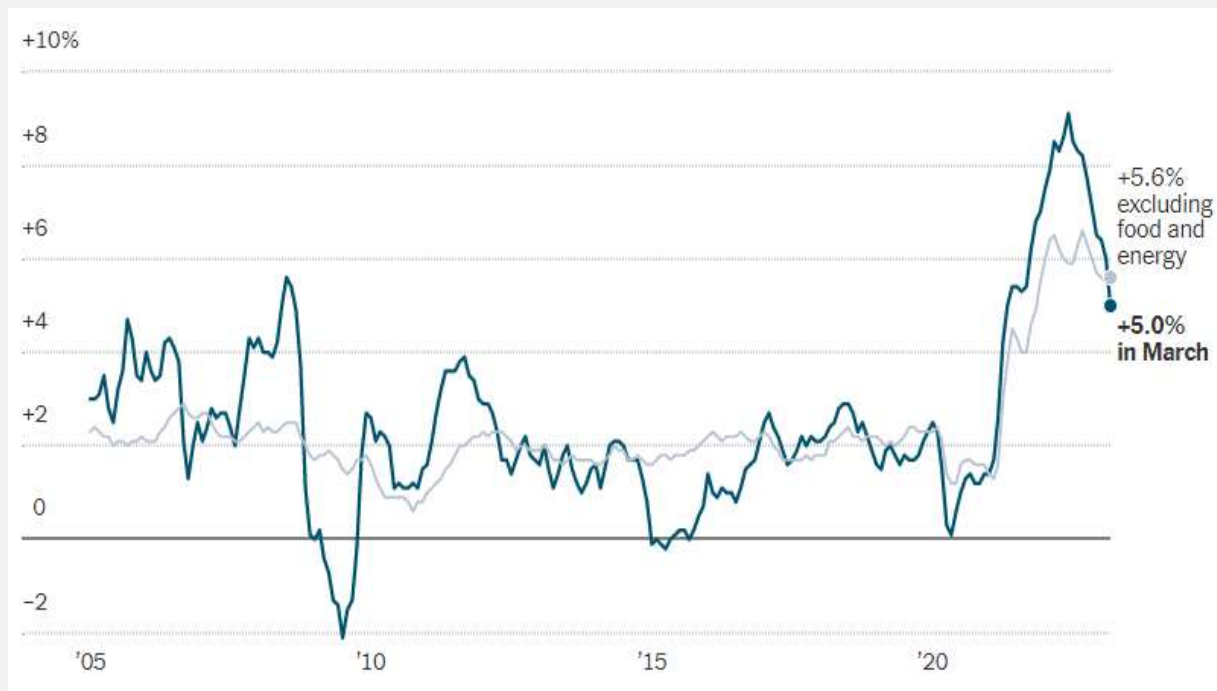
Although inflation had been moving in the right direction — with the Consumer Price Index (a leading indicator of inflation) declining since the start of the year and even the most recent release of the year-over-year data for February coming in at 6% (well off the peak of 9.1% set in June 2022), the Federal Reserve remained resolute in its commitment to get inflation back to the 2% inflation level in the intermediate term. As such, the case was set for more rate hikes, with a very strong employment backdrop providing the Fed with bandwidth to increase rates.

In early March, sentiment shifted as weakening financial conditions surfaced with the collapse of Silicon Valley Bank and Signature Bank and the contagion risk that followed. The Fed acted immediately — together with the U.S. Treasury and the FDIC — to provide important liquidity not only through its customary Fed Window but also through a new facility, the Bank Term Funding Program. With an immediate focus on financial stability for the entire banking system—large, regional and community banks—the Fed provided help to assure banks that they would have the ability to meet the needs of all their depositors, thereby dialing down the stress in the overall banking system.

As a result of having raised this additional “scaffolding” around the banking system, the Fed proceeded at its March Meeting to refocus on price stability and kept its rate hike to the originally forecast quarter-point. The Fed’s actions further signaled to the markets that it was confident in its ability to “triage” necessary systemic banking issues while also remaining committed to its primary objective of returning inflation to a 2% target rate.

US Inflation

12-month percentage change in the Consumer Price Index



Note: Not seasonally adjusted Source: NYTimes, Bureau of Labor Statistics

A Note From Richard Lockwood Chilton, Jr.



With the average holding period for many investors at six months or less, it is prudent to ask the question “why do investors both professional or retail buy stocks?” Is it really because they want to own a piece of the business for the long-term like private equity professionals do when they own 100% of a business for ten to fifteen years? Or is it because they merely think that the stock will go up and then they can sell it for a quick profit?

Historically, it seems that many investors are tempted by the dream of quick profits, placing enormous faith that they know more than the markets. These immediate-gratification stockowners are largely ignoring the reality that for every buyer there is a seller who doesn’t exactly share that dream. In times of market volatility, these more spurious buyers give up the dream or just want liquidity, and drive what frequently becomes an abundance of irrational stock prices within the market. In instances such as these, typically nothing has materially changed in the intrinsic value of the business; what has changed is that optimism and the hope for quick profits has devolved into pessimism and fear. In fact, it is this very dynamic that, for astute investors, creates a silver lining and provides opportunities to buy companies with long-term return potential.

The objective to win during these periods is to stay fixated on why you bought into the business in the first place. Warren Buffet likes to say that before you buy a stock or into a business, if you can’t write down the reason on a single piece of paper then you have no business making the investment. These reasons are your North Star or the tenets for why the company will be successful over the next five to ten years – not the next six months.



Economist, and Buffet's predecessor in value investing, Benjamin Graham similarly expressed how day to day the stock market is a voting machine; but in the long term it's a weighing machine. This accounts for the idea that the speed at which a business's financial success is realized is less important than whether the measures of intrinsic value are increasing over the long term at a reliable and steady pace. In other words: short term price fluctuations should not be a reason to sell or, as some people like to call it "de-risk the portfolio" as long as the underlying reasons for your original purchase are still intact. In fact, taking advantage of other's fear is the smartest thing you can do.

Stocks are an asset class that have the distinction of being daily liquid and publicly traded. Most people assign value to a company's stock based on the closing price each day, which is entirely the wrong way to view investing in the equity markets. Consider, for example, your primary residence: what if your house traded publicly? What if you paid \$1 million for your house, and one year later it was trading at \$800,000? Would you sell it to de-risk your investment? The answer is no, because you intend to own that house for the next 10 to 20 years, and over time it will hopefully be worth a lot more. Further to this point is just because stocks trade publicly, you don't own them for a quick trade; you own them to capture the long-term compounding of their business models over five to ten years.

At Chilton, we analyze the business model, future earnings and cash flow streams and then determine a price that we feel gives us a great return commensurate with the risk and margin of safety. Only then do we check the market price to determine if they are in sync. We remain focused on our initial reasons for having bought into a company, and we remain focused on purchasing outstanding companies that will drive returns for many, many years into the future.

Our Portfolios

Equities: Watering our Flowers and Picking Our Weeds

“Even the best companies endure periods of difficulty, but the quality of their business models allows them to adapt and gain market share, positioning them to win over many years.”

There is no quick road to riches, no matter what you may hear from CNBC. Patience comes hard for many investors, but when you own the very best businesses in the world and have time on your side, you can take comfort in knowing that patience will be rewarded. If you don't believe that Costco, Home Depot, Sherwin-Williams, Mastercard, PepsiCo, Hershey, Republic Services, Microsoft, CSX, and Canadian Pacific will continue to grow and be more important to the U.S. economy over the next 10 to 25 years, then equity ownership is probably not the right place to be.

Despite the losses of 2022 and the continued volatility of the past quarter, our portfolios are still awash in gains for many of our longer-term investors. To that end, we thought it wise to discuss our selling philosophy, which can be summed up by the old adage of “watering our flowers and picking our weeds.”

Some stock investors get nervous when a stock has significantly outperformed, and sometimes these investors believe they should take profits—this is, of course, “picking flowers.” Conversely, other investors will stay with their losers for far too long out of blind ambition and the unwillingness to admit mistakes—and this, of course, is “watering weeds.”

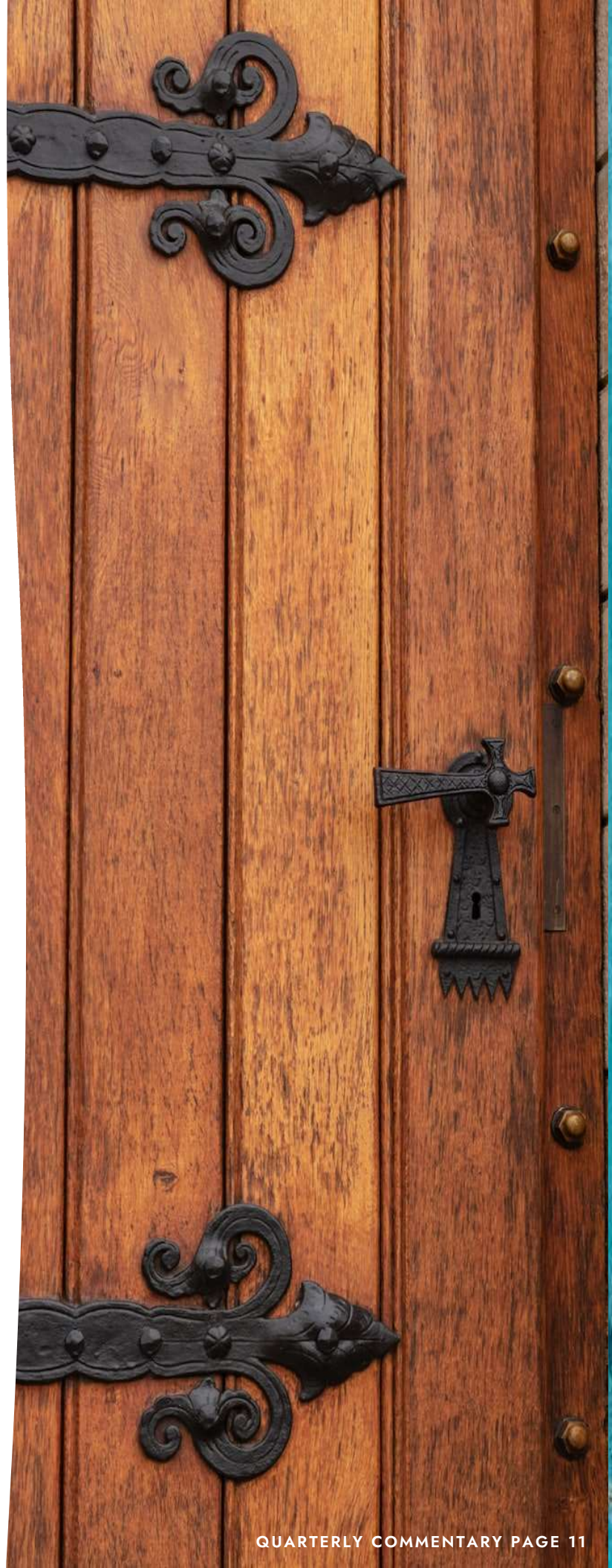
At Chilton, we endeavor to do the opposite, but news flash: professional investors do make mistakes. However, typically pros possess the ability to rationally identify their mistakes and move on, ideally without permanent capital loss. At Chilton, we would sell or trim a position generally for three reasons:

- 1) First, if a current stock valuation is so rich that it fully discounts our expected return over the next three to five years;
- 2) Second, if the initial reasons why we made the investment have changed. These reasons would include business quality, future earnings, cash flow streams and market share dominance; and
- 3) Third, we will sell or trim an investment during severe market turmoil, such as in December 2018, May-June 2020, or periods in 2022 when the stock price of other companies that we feel have incredible return profiles are just too cheap to ignore.

There does come a time, however, when one has had enormous investment success, such as we have had with quite a few of our companies; in this instance, these positions do tend to get rather large in the portfolio. We are very mindful about excessive concentration and are prudent about this risk. It also can cause what we call the tax hostage situation, as discussed on the following page.

The “Tax Hostage” Situation

For example, about twelve years ago we started buying a name in the home derivative sector for a very attractive share price based on our assessment of the company’s underlying fundamentals. Since then, the company has performed exceedingly well, vastly increasing its earnings, cash flows, market share and total addressable market. In fact, it is a more dominant and stronger company today than it was more than a decade ago. In the past twelve months, the name has come under pressure, as home derivatives were swept into investors’ concerns about rising interest rates and the U.S. housing market. Some may ask, should we sell the stock because it is not working at the present? And to that, we would say no. When underperformance of a stock is not a function of underperformance in the business, there is no reason to sell out. In fact, with the transactional cost of selling in and out of these names, many investors wouldn’t even receive the full present market value but rather the after-tax proceeds, which can be material for our clients. At Chilton, we believe in the names we own and our conviction rarely changes; not only does this investment philosophy minimize unnecessary taxable consequences, but it allows us to remain invested in names that we know will continue to perform for the longer term.



Portfolio Spotlight: L'Oréal

When we wrote earlier in this commentary that irrational markets can provide buying opportunities at optimal entry points, one such example in our portfolio is L'Oréal. We waited a long while for the current price to invest in L'Oréal, but it was worth the wait, and we have since been rewarded. In fact, when people ask me about the brutal year of 2022, I often point to the silver lining of being able to purchase several outstanding companies that will drive return for many, many years into the future.

L'Oréal is the largest beauty company in the world. We have long admired the beauty market, which has exhibited remarkably consistent revenue growth of 4-5% or higher in each of the last 20 years, excluding just the Great Financial Crisis, when it still grew by low-single digits, and the Covid shutdown. L'Oréal has historically grown faster than the market due in large part to its product portfolio of ultra-prestige brands of which 10 brands each will generate over one billion in sales per year.

L'Oréal has the largest scale within the beauty markets which allows it to outspend on both research and development as well as marketing. This dedication to research and development has enabled the company to stay at the forefront of innovation. The company already has a focus on the best areas within the market, like skincare, luxury, and health/wellness, and we believe the mix will continue to skew towards growth. Additionally, attractive bolt-on M&A, like the recent acquisition of Aesop—a brand growing over 20% per year—will augment this strategy. L'Oréal is also a leader in digital, with 28% of sales currently driven by e-commerce, and a growing portion coming from the high margin direct-to-consumer channel. And despite its status as the largest global beauty company, L'Oréal still has only 14% market share, leaving plenty of runway for growth. These are all tailwinds for the company, which we believe can sustainably grow revenues by 8-9% and earnings by 10-12% for the foreseeable future.

2022 Sales Growth by Category



Source: L'Oréal.
* 2022 like-for-like sales growth. ** L'Oréal beauty market estimates based on manufacturer's net prices, excluding soap, toothpastes, razors and blades. At constant exchange rates..

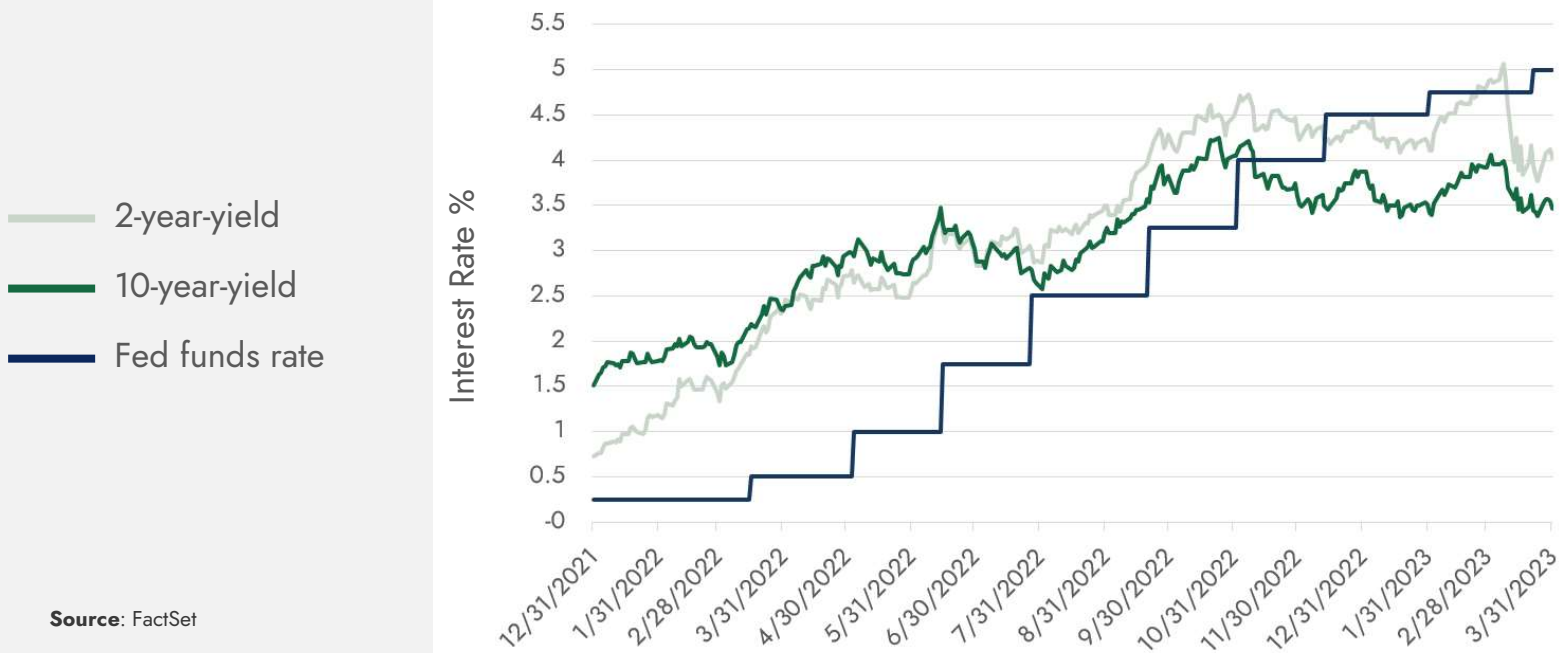
Our Portfolios

Fixed Income: All Eyes Remain on the Fed

Our central case is for “one more” Federal Funds Target Rate move up of 0.25%, probably at the upcoming May Meeting. We would then expect the Fed to remain on hold for the balance of the year.

Short-Term Commentary

Continued focus on inflation, a robust employment backdrop, and strained financial conditions in some regional banks drove first-quarter volatility for rates at the front-end of the yield curve. U.S. Treasuries inside of six months ended the quarter with higher yields, but the remainder of the curve saw yields decline quarter-over-quarter. The shift in yields made the inversion between the 3-month US Treasury Bill and the 10-Year US Treasury Note even more pronounced, ending the quarter with an inversion of -1.22%. The 2-year US Treasury yield experienced fairly dramatic moves over the quarter, reaching a high above 5% on March 8th but soon after declining to levels below 4%.



Short-Term Commentary (cont.)

Within this backdrop, we have focused on high-grade issuers and increasing U.S. government holdings. We have been selective when adding exposure to corporate bonds and have strategically layered in duration. In our Crossover portfolios (i.e., comprising both taxable and tax advantaged issues), we have continuously evaluated municipal bond yields to the after-tax level on comparable corporates. Throughout the quarter, we saw U.S. Treasury Bills and corporate bonds typically offer more take-home income due to the premium pricing of short-dated municipal bonds.

Municipal Market Commentary

The municipal market started the year on a constructive note as strong technicals associated with the quarter's traditionally high redemption volumes, large coupon reinvestments and limited new issue supply contributed to positive total returns. According to the to the Bond Buyer, new issue volume for the quarter was down 27% with \$75 billion of new long-term issuance for the first quarter, compared with \$103 billion from the same period last year. The dearth of new issue supply along with declining U.S. Treasury rates contributed to lower yields and tighter credit spreads.

Tax-advantaged securities marginally outperformed their taxable counterparts during the first quarter. Outperformance was most pronounced in the 5- and 10-year sectors of the municipal yield curve with ratios tightening

3- to 4-percentage points. As we closed the quarter, valuations across the yield curve appear rich relative to US Treasuries. The 2- and 5-year sectors of the yield curve have negative "taxable equivalent" spreads for both institutional and individual investors. Thus, we recommend for short-dated strategies adding US Treasury bills, notes and/or investment grade corporate securities until valuations reverse.

Taxable Market Commentary

U.S. Government and Investment Grade Corporate bonds had a strong start in the first quarter after having one of their historically worst years in 2022. Following a year of extremely elevated inflation, prices continued to come down in the first quarter (the Consumer Price index declined to 6.0% in the first quarter, the lowest level since September 2021) and the Federal Reserve Board decelerated the pace of tightening U.S. monetary policy which taxable bond markets responded favorably to.

Economic data, growth, and consumer confidence also continue to show stability, which helped corporate bond spreads remain in a tight range. After Gross Domestic Product annualized for Q2 2022 at -0.6%, it began a more positive trajectory and came in at 2.6% in the first quarter of this year. Similarly, consumer confidence (as measured by the University of Michigan's Consumer Expectations) rebounded from 47.3 in July 2022, the lowest level since 1980, to 58.4 in the fourth quarter of 2022 and then to 59.2 in Q1 of 2023.

Our Go-Forward Strategies

Liquidity Portfolios

- The front-end of the U.S. Treasury curve continues to offer the highest yields, specifically with the 6-month U.S. Treasury Bill having an average yield of 4.88% throughout the quarter. The 6-month US Treasury Bill reached a high of 5.25% on March 8th but ended the quarter at 4.86%.
- Ultra-liquid portfolios continue to meet liquidity needs and have been fully focused on cash needs.
- While the shortest-dated issues did face rate volatility during the quarter, they ended the quarter with higher yields than US Treasuries maturing in 1- to 3-years. The 2-Year U.S. Treasury Note reached a peak yield of 5.07% on March 8th but ended the quarter at 4.02%.
- As is prudent and available, we continue to layer-in duration to the portfolio, specifically in high-grade corporate paper and U.S. Government issues.

Crossover & Crossover Plus Portfolios

- We continue to look for value in Tax Advantaged Municipals, and particularly, where needed, specialty states. The same applies to high credit quality investment grade corporate bonds, where we are seeking yields ranging from 4.25% to 5.50% with 2- to 5-year durations.
- In preferred securities, we have been increasing our exposure to JP Morgan and Bank of America, pivoting away from some of the regional banks.
- With the U.S. Treasury yield curve inverted, where rates are higher in the 2-, 3- and 5-year range versus the 10-year, we have been positioning corporate bonds from 2- to 5-years in the Chilton taxable strategies. We continue to purchase high quality corporate investment grade bonds with yields ranging from 4.00% to 5.50% with 2- to 5-year durations.
- Amidst the market turmoil, we continue to take advantage of the new issue primary market as well. We are purchasing attractive credits at higher yields and discounted prices when compared to secondary market offers.

Our Portfolios

External Managers: The Strong Get Stronger

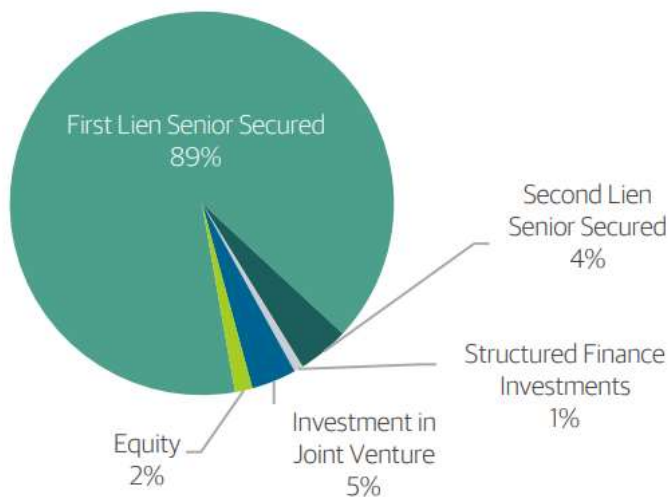
Private markets continued to come under pressure broadly, as deal flow remained muted, and the collapse of Silicon Valley Bank ripped a hole into the private markets ecosystem. Fortunately, our External Managers that focus on private markets had limited direct exposure to any of the banks that have collapsed or since come under pressure. The implications of the rapid and significant shifts in the private markets landscape, however, are pronounced. Many private companies will be challenged to raise capital and develop new strategic relationships in an environment of fear and risk aversion. Tighter financial conditions will serve to separate the “haves” from the “have nots,” creating a backdrop in which the strong get stronger and the weak may not survive. These challenging conditions reinforce our proclivity to focus on quality: our private markets managers have a depth of experience and expertise that guides their investment process and reinforces their strong risk aversion. Their portfolios are constructed to withstand challenging market conditions, and more attractive entry valuations should bode well for strong, future returns.

Our External Managers broadly enjoyed a strong performance during the first quarter, generally keeping pace or outperforming their relative indices. Our growth managers, after suffering a challenging 2022, experienced a nice recovery during the first quarter of 2023. Our international managers, focused on investments in Europe, also enjoyed a strong first quarter. We have always maintained a very high bar of selectivity for our managers focused outside the U.S., and our conviction behind our partners' focus on quality companies in Europe should serve client portfolios well in the coming years.

We continue to view the Blackstone REIT's portfolio positioning to be strong; its concentration of properties are in the fastest growing regions of the country and in the top performing sectors. BREIT's focus on multifamily housing, industrial and data centers and student housing should enable it to continue to perform well over time.

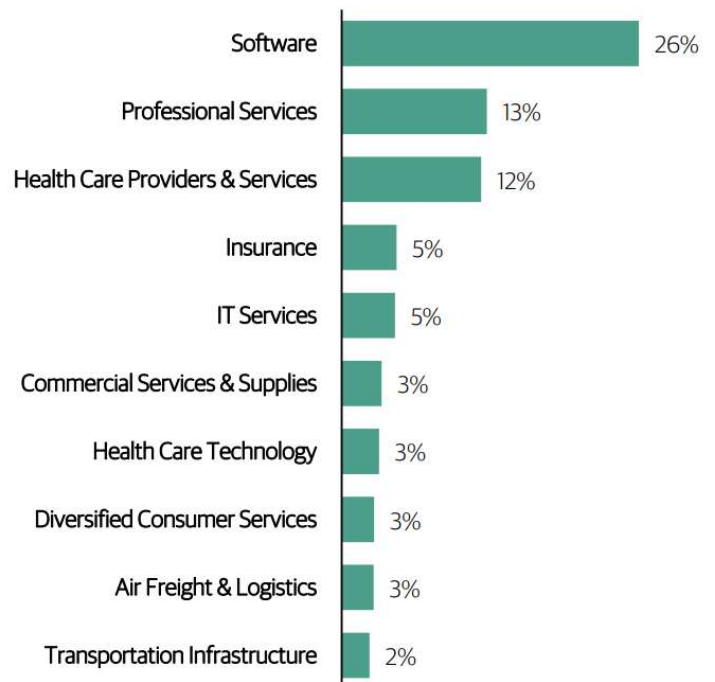
The Blackstone Private Credit Fund, is positioned nicely to provide some elevated levels of yield for investors. As the economic backdrop starts to slow, the importance of conservative underwriting is paramount. We gain assurance from the caliber of companies in BCRED's portfolio, and structural protections within each loan, that the credit team at Blackstone has created a resilient portfolio for long term success. Investors in BCRED benefit from a strong income stream underwritten to withstand these changing market conditions.

BCRED Asset Allocation*



Source: Blackstone Securities Partners L.P. Data as of February 28, 2023

Top 10 Industries (at FMV)**



*Measured as the fair market value of investments for each category against the total fair market value of all investments. Totals may not sum due to rounding.

**Measured as the fair market value of investments for each category against the total fair market value of all investments. Totals may not sum due to rounding. BCRED's investment in Joint Ventures are excluded from the industry top 10. Chilton Trust is not affiliated with any of the external managers listed herein, and does not receive any compensation directly or indirectly from any referenced third party manager for allocations to such manager. Any decision to invest with a third party manager is unique to your situation and therefore should only be made after consultation with your Chilton Trust advisors.

Manager Spotlight: Electron Capital Partners, LLC



Electron Capital Partners is an investment firm with whom Chilton Trust has partnered for a number of years and is one in which we have a great deal of conviction. Managed by Jos Shaver, the team of investment professionals at Electron focus on the Energy Transition and the key areas in its ecosystem: electric generation, transmission and distribution, mobility and storage.

Jos Shaver has over 31 years of experience covering the global infrastructure and utility sectors. The strategy at Electron has a 17-year track record of investment excellence and has generated a strong record of outperformance over the near and longer term. As the velocity of structural change within energy transition accelerates, Electron’s investment expertise and risk management acumen, combined with structural tailwinds to key areas of energy transition, make this investment opportunity appealing. As investors, we believe it is important to look for differentiated sources of return and uncover unique opportunities for alpha generation. As Jos Shaver has stated:

“The energy transition will present investors with an opportunity to identify winners and losers within the equity markets. It will bring an abundance of new market entrants, some of which will follow the trajectory of large successful technology companies and become dominant players; however, companies unable to innovate fast enough, or finance themselves in the short-term, will fail. We believe the opportunity for alpha generation within the renewables, infrastructure, and utility sectors will last decades.”

We believe that Electron Capital presents a terrific opportunity for a differentiated source of returns for portfolios, and we welcome conversations with those who wish to learn more.

Our Outlook

Light at the End of the Tunnel

As inflation readings receded during the first quarter of 2023, with CPI falling from 7.1% in December to 6% in March, the markets staged a strong relief rally. In the midst of this, two seminal events took place: the announcement of AI commercialization by MSFT, and a slew of bank failures in the U.S. and Europe. These events challenged an already complicated macro story.

While most investors knew AI was coming, the exact form and how it would be packaged for commercial use was a mystery. Microsoft framed the opportunity set clearly and with great enthusiasm, and investors celebrated the news. We soon witnessed the return of animal spirits among technology investors, many of whom were soundly battered throughout 2022, and the Nasdaq led equity markets higher.

The surprise bank failures of SVB and Signature Bank in March served as a stark reminder that despite the protections from bank regulations so thoughtfully crafted and implemented in the wake of the Great Financial Crisis, unintended consequences of rapid-fire fiscal tightening can be quite severe. Lax risk controls, unrealized losses from sharp interest rate increases, and concentrated deposits over FDIC limits conspired to wreak havoc, and the Fed quickly backstopped depositors even if creditors and investors were left holding the bag. This policy response by the Fed represented an about-face, and overnight we felt like we were back to quantitative easing—another green light for the market rally. The 10-year Treasury yield fell from 4% to 3.37% on the heels of these events, and risk assets were bid up during the last few weeks of the quarter.



Though the mid-March banking panic has been contained for now, we anticipate that there may be continued fragility in the banking sector, especially among regional banks which hold in aggregate 43% of their assets in commercial real estate. The fear is that urban office loans, a subset of commercial real estate, may experience higher than expected credit losses as vacancy rates tick higher due to remote work policies and potentially weaker employment trends. Large banks have only 13% of their total assets tied up in commercial real estate loans which, together with strong capital ratios, should protect that group from experiencing severe losses. However, given this fragility in the regional banking sector, we believe credit will be less available and more expensive, adding another pressure point to an already slowing economy. As we stated at the outset of this commentary, our base case still anticipates a mild U.S. recession.

The first quarter ended with confusion in the air, with the bulls arguing that we've been through so much already, and the bears reminding us that we haven't yet reached our destination of low inflation, and that the last part of this trip could be bumpy.

We remain patient as the S&P 500 continues to hover near 4,100, or 18.5x EPS, awaiting better entry prices to put new cash to work. While it is hard to be overly precise and predict exactly which earnings multiple should be used, we know that the historical S&P 500 average is closer to 16x and that earnings face downside pressure as the economy slows, which should begin to materialize over the next few quarterly earnings cycles. Additionally, with the Fed's recent shift in policy, we see a rising risk of stop-and-go inflation readings which could pressure the Fed to stay

higher for longer and create tough macro-economic conditions for the near- and mid-term.

Our central case is for "one more" Federal Funds Target Rate move up of 0.25%, probably at the upcoming May Meeting. We expect the Fed to carefully assess the possibility of a slowdown in bank lending as a result of the recent banking turmoil, as that slowdown may be worth as much as an additional 0.50% of rate increases. We would then expect the Fed to remain on hold for the balance of the year—ever "data dependent" even though the market is expecting rate cuts from the Fed to start as soon as September. The underlying strength in the economy of a fully employed labor force should keep the Fed on hold longer than what is currently priced, further damping inflationary pressures and ensuring that inflation—particularly wage inflation—does not become imbedded, or in Fed speak, "persistent."

To be sure, the domestic economy will pull through this given the amazing agility of many U.S. businesses. New AI tools will help enhance productivity as will flexible work arrangements. We believe that being invested in high quality, durable business models with low leverage is the right strategy to meet the moment, and we have great confidence in our portfolio of companies which are resilient and adaptive. We remain hopeful that structural themes such as the emergence of AI, the near-shoring of supply chains and a supply imbalance in residential housing may offer opportunities for revenue growth to many of our portfolio companies. While we may not be through the challenges of the post-COVID era just yet, we see light at the end of the tunnel, and look forward to valuation opportunities that come only once a cycle.

Our Team



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.



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.



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 business, 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 YMCA, as a committee chair for Impact Fairfield County and enjoys additional volunteer opportunities with her church and children's schools.



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 MSSD, 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 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 Project Y Theatre Company, and on the Investment Committee of Vinalhaven, ME Land Trust.

NOTE: This document was prepared by Chilton Trust. Any use of Chilton Trust herein refers to Chilton Trust Company, N.A. and its affiliates, including but not limited to Chilton Investment Services, LLC, and their owners, employees, and agents. Fiduciary services are provided to clients by Chilton Trust Company, N.A. Investment advisory and portfolio management services are provided to clients, by delegation, by Chilton Investment Services, LLC and other affiliates. This document was prepared by Chilton Trust solely for the benefit and internal use of the client to which it is provided (together with such client's affiliates, the "Client") in order to assist the Client in evaluating, on a preliminary basis, the matters addressed herein. Neither this document nor any of its contents may be disclosed to any other party or used for any other purpose without the prior written consent of Chilton. Notwithstanding the foregoing, Chilton Trust and the Client (and each of their employees, representative, or other agents) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of any transaction described herein and all materials of any kind (including opinions and other tax analyses) that have been provided to them relating to such tax treatment and structure. Past performance is not indicative of future results. Any investment in a separately managed account or limited partnership is speculative and involves a high degree of risk. This does not constitute a solicitation to buy or sell securities. The recipient understands that this is prepared for Chilton Trust clients only and that this material includes confidential or proprietary information which may not be shared, in whole or in part, with third parties without Chilton Trust's express written consent.

CHILTON TRUST

www.chiltontrustcompany.com

CHARLOTTE: 5925 Carnegie Boulevard, Charlotte, NC 28209
(980) 227-3101

NAPLES: 850 Park Shore Drive, Naples, FL 34103
(239) 488-1051

NEW YORK: 300 Park Avenue, New York, NY 10022
(212) 843-6882

PALM BEACH: : 396 Royal Palm Way, Palm Beach, FL 33480
(561) 598-6330

STAMFORD: 1290 East Main Street, Stamford, CT 06902
(212) 843-6882

WILMINGTON: 1105 North Market Street, Wilmington, DE 19801
(302) 466-3501