Chilton Trust

First Quarter 2024

Quarterly Commentary

Introduction

Pepper Lindsley Anderson – President & Chief Executive Officer

As our investment team entered the first quarter of 2024, we categorized our view as one of cautious optimism. That perspective led us to focus more on reviewing key goals with you, our clients, while making select, and often incremental, adjustments to asset allocations. Much of the work we concentrated on was under the hood within portfolios. As markets continued to react to evolving information, we felt well positioned to use dislocations as opportunity. The foundation to our investment approach, across all asset classes, is one of commitment and patience – maintaining our convictions, preferring a strategic rather than reactive view and seeking out appropriate opportunities to implement those perspectives. In such times, we have felt fortunate to have a well ingrained mindset for investing for each family individually, taking into account the nuances of taxes, liquidity objectives and portfolio objectives. As we approach all types of market conditions, we will continue to identify opportunities, both at the security and asset class level, to most effectively meet your goals.

Thank you, as always, for your continued confidence in Chilton Trust. Our team is grateful for your partnership.

Market Overview

Market Celebrations Continue into Q1

Equity markets across the globe sustained their upward momentum during the first quarter of 2024, continuing the strength seen during the final quarter of 2023. Markets were buoyed by economic readings that supported a path toward lower interest rates, while the economy avoided the recession that many market prognosticators had anticipated. U.S. markets were particularly robust during the first quarter, as the S&P 500 rose 10.6% and the Nasdaq increased by 9.3%. International markets had more measured positive performance, as the MSCI All Country World Ex-U.S. Index gained 4.8%. Emerging markets, as measured by the MSCI Emerging Markets Index, were also positive, gaining 2.4% during the first quarter.

Meanwhile, US economic data releases continued to show a strong economy. Employment data indicated a very tight labor market, although CPI data showed that inflation is proving more stubborn than expected. The Federal Reserve remained dovish at their March meeting; the FOMC lifted its outlook for GDP and PCE projections but left its projections for three 2024 rate cuts unchanged. Investors took this to mean that the Fed is committed to engineering a soft landing and will continue the path towards cutting rates in the near future. The equity markets took this as a reason to buy.

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

Nick Frelinghuysen
Managing Director & Portfolio Manager: Equities

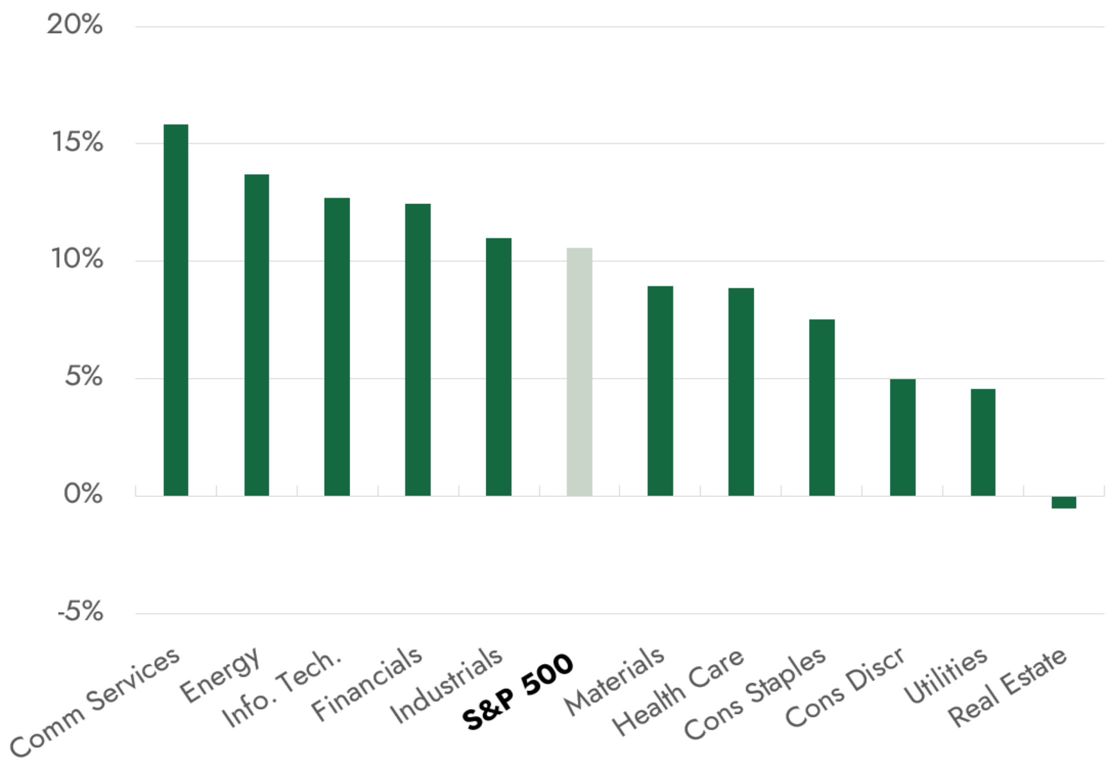
Equity Markets

Market performance broadened out from the prior quarter, but large cap stocks continued to outperform mid and small cap names – while growth names were stronger than their value counterparts. The composition of market returns shows a broadening of performance, particularly relative to 2023's lack of breadth, but the technology and communication services sectors continue to lead, reflective of healthy relative growth dynamics coming from those sectors, further elevated by AI investment. Energy markets, too, performed well in the first quarter of 2024, a reflection of geopolitical turmoil in the Middle East and Russia. The chart below illustrates the dispersion of returns on a sector basis.

The beauty of the stock market is that its short-term movement is famously difficult to predict. Over the long term we know that stocks, and the market, follow earnings growth, but in the short term it can react to a myriad of variables that are often dominated by sentiment. Within the first quarter of 2024 we saw a combination of both: first quarter earnings for the S&P 500 not only met but exceeded expectations and investors' animal spirits ran high on the anticipation of as many as five rate cuts by the Federal Reserve during 2024.

S&P 500 Performance by Sector

Q1 2024



Source: Bloomberg

Fixed Income Markets

Since the Federal Reserve began raising rates in March 2022, the biggest question remained 'how long *is* higher for longer, exactly?'. That question was answered at the December 2023 meeting, with a "pivot" by the Federal Reserve away from any further rate hikes and a stance of maintaining rates at 5.25 – 5.50%. Shortly thereafter, the markets began to run with the concept that rate cuts would begin almost immediately – this narrative continued throughout the first quarter. The market aggressively priced in six rate cuts, starting with the first cut at the March FOMC meeting. As the quarter unfolded, much stronger economic data points, such as employment and domestic demand – fueled by wage growth, incomes gains and additional unprecedented fiscal stimulus – continued to increase. Against this backdrop, the US economy remained surprisingly robust for this late in a cycle with technically tight financial conditions, but unfortunately inflation remained very sticky. All of these conditions prompted the Federal Reserve to clarify its messaging surrounding their "higher for longer" policy, while still leaving the door open for rate cuts later in the year.

By the March 2024 meeting the Federal Reserve was prepared, with the Summary of Economic Projections, to project a likelihood of three rate cuts in 2024, although they have been pushed out further and further into the year. As the first quarter concluded, the market estimated, with a probability of ~66%, that the first-rate cut would take place in June 2024 and more cuts would occur at subsequent meetings in September and December (according to Bloomberg WIRP).

As shown in the chart to the right, the shape of the yield curve remains inverted, with the 3-month US Treasury Bill yielding ~1.00% more than the 10-year US Treasury on March 31, 2024.

Source: Bloomberg

While the yield curve is still projecting an outright recession, the Federal Reserve remains focused on heading off that outcome by signaling its willingness to start cutting rates before achieving the 2% inflation target – this provides the bandwidth to reach its target inflation level as far out as 2026. Against this first quarter backdrop, fixed income markets needed to reprice in order to dampen down the exuberance for potential rate cuts and allow for a more realistic approach to price stability in a much stronger post-COVID economy. The narrative surrounding a "soft or hard landing" continued; while achieving an economic "soft landing" was never going to be an easy goal for the Federal Reserve, the results of U.S. GDP and full employment performance throughout the first quarter were about as close as any Central Bank could hope to achieve.

Our Federal Reserve Outlook

We will patiently await the outcome of the June FOMC meeting. However, given the most recent inflation and wage readings, the Federal Reserve may not yet feel confident enough to begin easing financial conditions. Our central case remains that there will be at least two rate cuts within 2024 – the goal being not to prevent a full-blown recession, but rather to reduce the tightness of financial conditions throughout the economy and maintain the critical balance of full employment and price stability.

Our Portfolios

Equities: Long-term Growth & Strength

We believe that our portfolio companies are the strongest they have ever been. Our companies are utilizing their tremendous scale to drive efficiencies and increase their corporate moats to maximize returns for their shareholders. In a business world with so many variables, it is the very best businesses that are improving their supply chains, using data analytics to effectively spend marketing dollars (thus driving new customers) and exploring the use of AI. This will, for many of our companies, drive lower costs and generate better efficiencies.

As we have said in the past, the last ten years of earnings growth is not a prediction of the next ten years, but given the increased scale of market share gains, we feel confident that our long-term portfolio companies will continue to deliver excellent earnings growth and returns.

As our thinking is starting to be reflected in our companies' P/E multiples, we continue to benchmark against their ten-year historical averages. This allows us to keep our valuation targets prudent. We have selectively trimmed or eliminated some holdings where we felt that the investment no longer reflected an above average return profile. The most impactful of these were the sale of Monster Beverage, Campari, AON, Thermo Fisher Scientific, Google, and Union Pacific.

Currently, the S&P 500 P/E multiple sits at 21x 2024 earnings per share, which is high by historical standards. The broader market, as reflected by the equal weighted S&P 500 P/E has gone up from its low in October 2023, but still reflects some value at 17x. Even though the S&P 500 multiple is a concern, it is our belief that it is being greatly influenced by two important aspects. Firstly, the tremendous earnings growth and performance of the technology industry is distorting the P/E multiples. Additionally, but just as important, is

the continued growth of passive investing, which just buys the market at its current prices. So, therefore, those active investors who would be more likely to set the price and valuation discipline are fewer than before and passive investing has become momentum investing, rather than buying great businesses at attractive long-term prices.

This shift in positive sentiment can be best illustrated when one looks at the VIX volatility index, which is sometimes referred to as Wall Street's "fear gauge."

Over the last 35 years, the VIX index has averaged 19.5 for each of the respective calendar years. Under extreme duress and fear, like 2008 and 2009, it averaged close to 30. During the last 35 years, it has averaged above 19.5 for the year, fourteen times – once at the average and eight times below the average, with four of those eight occurring between 1992 and 1995. Last year, it averaged 16.9 and this year it has averaged 13.7. All of this is to say that we have been running well below average, in terms of market volatility, a situation that is, most likely, unsustainable.

The **VIX Index** is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 Index. Because it is derived from the prices of SPX index options with near-term expiration dates, it generates a 30-day forward projection of volatility. Volatility, or how fast prices change, is often seen as a way to gauge market sentiment, and in particular the degree of fear among market participants.

While it is extremely foolish to try and time the stock market, it is also important to remember that, even in healthy bull markets, sentiment can shift and cause market corrections. While we believe in the power of future S&P 500 earnings for 2024 and 2025, when sentiment is high and equities are priced to perfection, corrections can occur. Our investment team will continue to be prudent with our valuation metrics as we navigate these markets, to achieve our long-term performance goals.

Portfolio Spotlight: Moody's Corporation

Moody's Corporation is among the highest quality businesses in the world. Its deep competitive moat allows capital reinvestment at very high returns, which drives sustainable earnings growth and ultimately produces strong shareholder returns. Moody's has two main businesses: Moody's Investor Services and Moody's Analytics. The former is the second largest credit ratings agency in the world, while the latter sells its vast proprietary data to 14,800 various customers. The credit rating businesses should be able to grow at a healthy rate, well into the future, due to the fact they are able to grow global debt levels and achieve pricing power. Debt is an attractive financing mechanism for many companies, and Moody's has immense pricing power because they create more value than they capture. By issuing debt with a Moody's rating, companies can reduce their cost of debt by 30 to 50 basis points. The 7-basis point, one-time fee Moody's charges the debt issuer is a no-brainer for CFOs and provides a sustainable pricing umbrella for Moody's. In addition, competitive forces are somewhat benign for Moody's in a classic oligopoly market structure. New entrants suffer a chicken and egg problem, where debt issuers only seek ratings from agencies that investors trust and recognize. This makes displacing an incumbent, such as Moody's, prohibitively difficult. Moody's Analytics, though it has lower margins, is a strong complement to the credit rating business. Its high recurring revenue smooths out the cyclicality of debt issuance and further monetizes Moody's unique data sets. Because of this data advantage, we believe Moody's Analytics will be a prime beneficiary of AI. They have recently launched an AI product in the market, which enables 30% lifts to pricing and has the potential to significantly improve margins through both higher revenues and cost savings. While there can be a lumpiness to the ratings business, we have a high degree of confidence that Moody's will continue to grow revenue, generate significant free cash flow, and return cash to shareholders over the long term; a trusted formula for producing great investment outcomes.

Our Portfolios

Fixed Income: “Bumpy” Inflation Poses Problem for Fed

Within our portfolios, our mission has been and will continue to be, layering in historically attractive yields in the tax-advantaged and the taxable markets. We are looking to lock in very attractive income for near and intermediate term and are not buying longer duration, but we will continue to focus on the 3 – 5 year term, which are at historically durable yield levels. With our belief that rates will stay higher for longer, we were pleased to see rates repricing in the first quarter and aligning more with the tone of the Federal Reserve. During the past quarter, we saw stability in our US Treasury Bills, specifically 6 months and closer in. The remainder of the curve saw more pronounced repricing, as yields increased quarter over quarter. Within the short-term market, our portfolios continue to benefit from the shape of the yield curve, which remains inverted, with the highest US Treasury yields still being offered inside of 6 months. We’ve strategically worked to layer in duration and used the recent increase in yields as an opportunity to do so. We find value at these current levels and feel the market has finally begun to accept the messaging from Chair Powell and the Federal Reserve. In addition to US Treasuries and US Government paper, we have looked to the robust corporate bond issuance as another opportunity to expand our exposure. With the 35% year-over-year increase in corporate bond issuance, we were active in the new issue market, where we could take advantage of quality issuers offering higher coupons and discount pricing. In our short-term crossover portfolios, which are anchored in tax-advantaged municipal bonds, we faced an expensive municipal market throughout the quarter, therefore we were patient and strategic as we added the tax-exempt holdings to the portfolio. As such, we were incentivized to add more high-quality corporate bonds to the portfolios, thus adding attractive after-tax income and overall, additional, diversification.

The municipal market started the year on a constructive note, as strong technicals associated with the "January effect", high redemptions, large coupon reinvestments and limited new issue supply supported the market. The positive tone quickly reversed in mid-January as the lack of price discovery rose in the sector and rich valuations continued to put pressure on the primary and secondary markets. In addition, US Treasuries yields increased in the first quarter, as strong economic data weighed on the market, showing that inflation remained a concern for investors. Municipal issuance increased throughout the quarter and remained above average, thus weighing on supply and demand imbalances, and putting additional pressure on the municipal market.

Due to market volatility, uncertainty regarding the Federal Reserve's first rate cut and weak municipal market technicals we maintained durations marginally shorter than the benchmark but remained tactful in extending when rates and valuations looked attractive. In our tax-advantaged accounts, we opportunistically added securities in the AA and AAA – rated sectors with a concentration on revenue bonds for accounts with new cash, especially when executing tax swaps or extending duration. In our crossover strategies, we maintained a focus on tax-advantaged securities but due to rich valuations, throughout most of the first quarter, we modestly added to our investment grade corporate exposure and QDI preferred weightings. We added A-rated and selectively added BBB – rated corporate securities to maintain our target corporate weight and added preferred securities to enhance after-tax yield and return.

Lastly, in our corporate portfolios, we generally believe the elevated rates within the bond market provide a good opportunity for clients to put money to work in the fixed income markets and lock in attractive yields. We were able to find top quality investment grade US corporate bonds, with yield in excess of 5% and maturities of 5 years. We believe that adding bonds with these elevated current yields to build a durable portfolio that will provide income and stability for the coming years. We do not see materially lower corporate bond spreads, considering that we are hovering around all time tightest levels. Corporate bond spreads, which is the additional yield that investors require to buy corporate bonds compared to US Treasuries, have decreased year-to-date and positively impacted bond performance. Investment grade corporate spreads are currently +89bps. This is an 11bps compression since the start of the year and the lowest level since 2021 (and only 9bps off a record low). High yield spreads are about 200bps, which is also the tightest since 2021 and only 25bps shy of the tightest level in 20 years. However, without a global macro shock, we don't see corporates widening. U.S. corporations have very strong balance sheets as they refinanced debts when rates were cut to almost zero. Additionally, profits are at record levels, leverage and credit metrics are reasonable and defaults are low.

We continue to actively utilize both the primary and secondary markets to extend duration and layer in quality corporate debt to portfolios. These robust portfolios can provide both income and stability.

Our Portfolios

External Managers: The Strong Grew Stronger

Our External Managers broadly enjoyed strong performance during the first quarter, producing very solid year-to-date returns. While doubt surrounding the timing of a pivot by the Federal Reserve has since emerged after the quarter's end, anticipation for lower rates fueled markets in throughout the first quarter. Our equity hedge funds generally had a strong quarter, as for the first time in several years, the market started to truly bifurcate between good business models and weaker ones. Elevated interest rates play a significant role in exposing more levered balance sheets, providing greater opportunity to create alpha in both longs and shorts. Our large cap partners demonstrated strong stock picking and those with meaningful exposure to outperforming their relative indices.

Private markets remained relatively subdued during the quarter, but deal activity has improved since last year. Transactions, to date, remain selective and successful for high quality assets with strong management teams and balance sheets, underscoring the benefit of focusing on high caliber teams and portfolios. We continue to believe that the backdrop for private markets remains very solid and we are keenly focused on partnering with a select number of managers that have the capacity to deliver outperformance over the long-term.

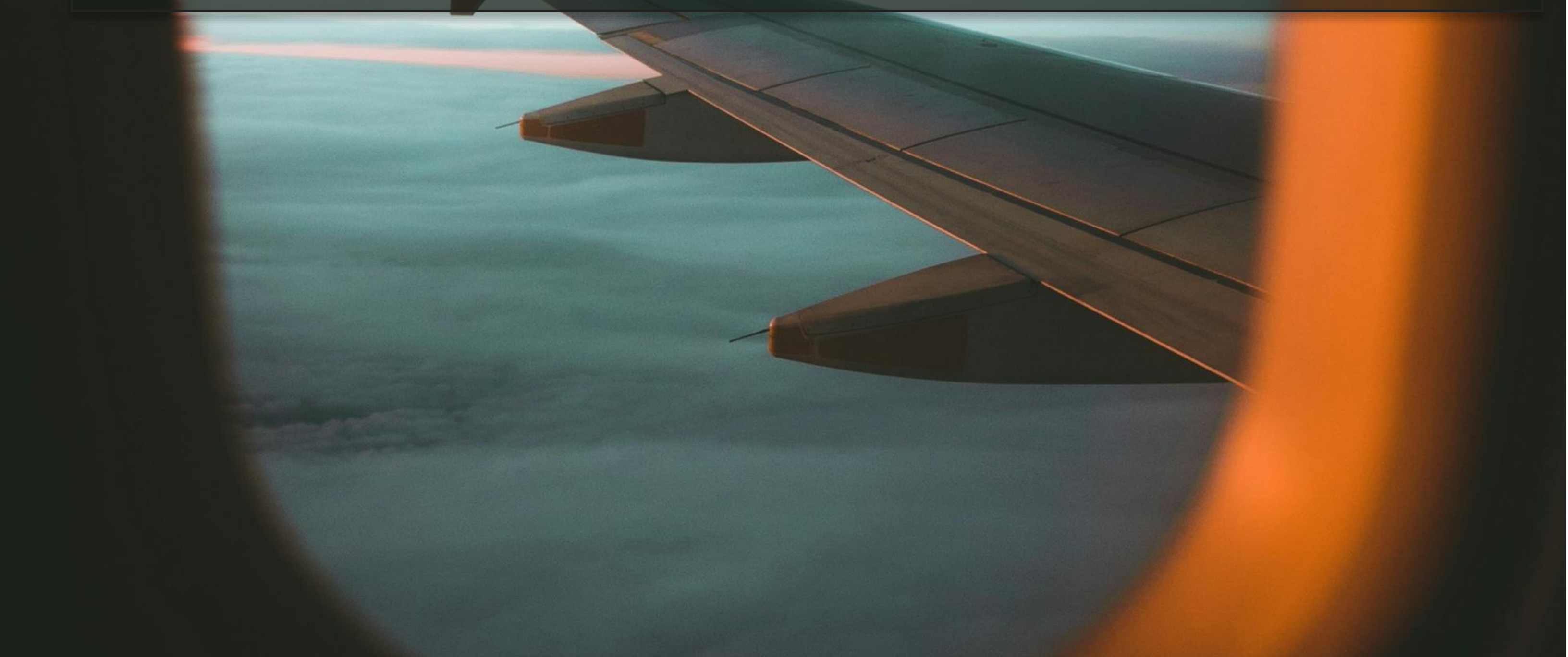
Our Outlook

Continuing to Read the Tea Leaves

After a healthy debate of "hard landing or soft landing" throughout much of 2023, equity markets celebrated the "no landing" economic scenario throughout the first quarter of 2024, as data revealed that the economy had indeed avoided recession. Employment readings remained strong while the ISM Purchasing Managers Index improved to above 50, a level at which typically signals expansion territory. Early AI products moved into commercialization and garnered strong accolades from early adopters. Mega project buildouts, fueled by ample fiscal spending and near-shorting initiatives began in earnest and contributed to economic growth.

CPI readings throughout the first quarter, and into April, revealed sticky inflation at 3.4%, while the alternative inflation gauge of Personal Consumption Expenditures, or "PCE", showed inflation at a more palatable 2.8%. Bond investors bid the US 10-year Treasury yield from 3.9% to 4.5% on concerns about stubborn inflation, and expectations for the Federal Reserve to cut rates in 2024 moved from six to two. Oil prices ended the first quarter on a high and some consumer companies reported signals of a softening consumer as excess savings from COVID have largely been spent.

Despite these challenges, equity markets charged higher with the S&P ending the quarter up a respectable 10%, as it seems the structural positives – AI, nearshoring, fiscal spending, and a coming pivot from the Federal Reserve – overcame perceived investment risks.



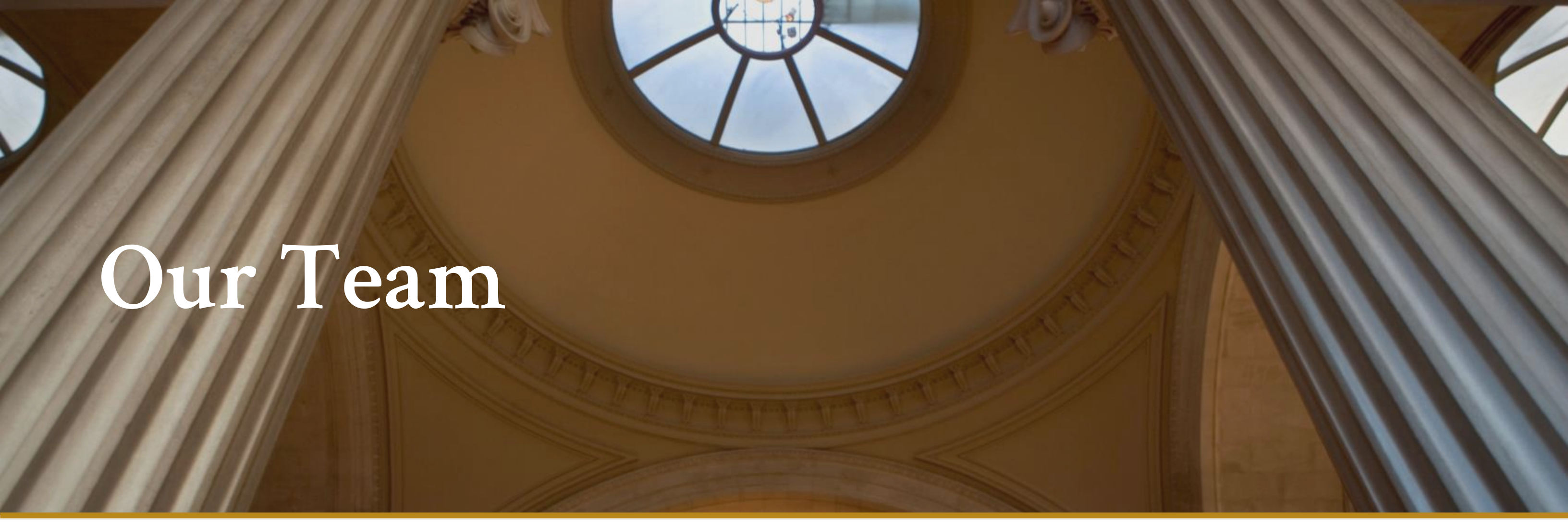
The S&P 500 ended the quarter trading at 22x forward earnings, rich compared to its historical average of 16.5x. Valuation is being somewhat skewed by the technology sector, which as a sector has the highest growth but also the highest multiple. Looking at the S&P broadly, and stripping away earnings from the Magnificent 7, reveals negative earnings growth for the rest of the S&P 500 during 2023 and into Q1, but consensus expects positive earnings growth starting in the second quarter – an improvement that the market has already anticipated.

Outside of a geopolitical shock, the largest risk to the market may be a shift in expectations around structural growth conditions. AI spending and nearshoring activity seem unlikely to change, given the large opportunity set at hand. While the adoption cadence could fall short of expectations, both public and private investment remains behind these trends. Fiscal spending policy is also unlikely to change in an election year, but there is growing nervousness that a pivot by the Federal Reserve to lower rates could stall or not occur in 2024, at all.

We do not have a crystal ball, but it stands to reason that with the PCE inflation readings already below 3%, that the Federal Reserve may have the data it needs to move forward with the rate cut this summer. Additionally, the timing of the US Presidential election makes it difficult for the Federal Reserve to cut in the fall, just ahead of the presidential election potentially forcing a decision this summer. We believe the market would celebrate a summertime rate cut, because it would confirm that looser monetary conditions have begun.

A pullback in equity markets after a strong run, like the one we have had since October lows, is both common and healthy. We see this as an opportunity to increase exposure to the high-quality companies, in which we have the strongest confidence, and to continue our work of finding new companies that possess long-term compounding attribute – both of which are hallmarks of the Chilton investment process.

As always, we thank you for your continued partnership and we look forward to visiting with you soon.



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.

NICK FRELINGHUYSEN is a Portfolio Manager and Managing Director. Nick Frelinghuysen is a Managing Director, Portfolio Manager – Equities. Nick is responsible for investments on clients' equity portfolios, with more than 29 years of experience in equity research and portfolio management. Most recently, he was a partner at the boutique investment firm, Eagle Ridge Investment Management, LLC where he served as a portfolio manager and Co-Head of Research for an organization with $950m in assets focused on high net worth individuals and institutions. Prior to his role at Eagle Ridge, Nick worked at Oppenheimer Capital (Allianz Global Partners) as Co-Portfolio Manager on a $2B Mid Cap value mutual fund and served as Cohead of Mid-Cap and All-Cap investments for the $25B firm. He began his career on the sell side at Donaldson, Lufkin & Jenrette. Nick attended Princeton University as an undergraduate and holds an MBA from The Wharton School at the University of Pennsylvania.

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.

PEPPER LINDSLEY 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 bons 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.