

Second Quarter 2022

Quarterly Commentary

Introduction

Pepper Anderson – President & Chief Executive Officer

As the second quarter of 2022 comes to a close, we reflect on our approach to a tumultuous first half of the year. An uncertain economic and political backdrop has forced the markets to continuously adjust and has left investors questioning where interest rates and equity prices will ultimately settle. Your Chilton Trust team has been focused on identifying investment opportunities to make or change within your portfolios that will set the stage for future strong returns. For portfolio managers with confidence in their positions, the current market can offer a silver lining and, as you will read below, our investment team has used this period to make investments at prices that we feel confident will represent good long-term value.

Looking forward to the second half of the year, we will continue to prioritize your needs while seeking out attractive opportunities. We are mindful that in the current environment it is more important than ever to properly prepare for any anticipated liquidity needs. While volatility and price declines are stressful, they also give us the ability to make tax efficient changes to portfolios. We recognize that this is both an iterative process and one that benefits from a flexible approach to portfolio management, which we are committed to bringing to each family we advise. We look forward to partnering with you in this process and are grateful for your confidence in Chilton Trust.

Market Overview

Finding Opportunities Amidst a Murky Backdrop

The second quarter of 2022 extended and seemingly amplified the challenging conditions witnessed during the first quarter, bringing painful year-to-date declines to most major asset classes across the globe.

Investors braced for similar conditions to the first quarter as they navigated concerns around inflation, notably elevated food and energy costs, rising interest rates and the war in Ukraine. The newly added worry of a global recession forced equity multiples lower and hit fixed income returns hard. Markets are clearly having a difficult time digesting the Fed's process of normalization; June ended as the weakest month of an already ugly quarter and year, as strong company fundamentals were typically overlooked.

June's particularly poor performance reflects a market in the midst of a challenging transition, as investors confront an outlook that is markedly less vibrant than it was at the start of the year. As we close out the second quarter, there are still a number of uncertainties facing the markets – the shift to tighter monetary policy, ongoing supply chain dislocations and commodity shocks, geopolitical turmoil – but with uncertainty comes opportunity. We have been sharpening our pencils to take advantage of attractive entry points that the recent downturn has provided. As long-term investors, we are confident that these opportunities will come to fruition when the pendulum, inevitably, swings to the other side.

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
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Louisa M. Ives

Managing Director & Head of
Manager Research

A Note From Richard Lockwood Chilton, Jr.



For several years, investors have been looking in the rear-view mirror; what was working continued working because of the tremendous liquidity in the system and the real fear of missing out. One of the hardest things to do as a professional investor is to maintain a critical eye towards one's investments, particularly for those that have worked well over time. There is a saying on Wall Street that "you shouldn't confuse brains with a bull market," and in a period of free money it gets amplified even more.

Yes, some of our equity investments have suffered this year after many years of outperformance as their P/E multiples have contracted, but they are real businesses with durable business models, earnings and cash flow streams that will continue to prosper for many years to come. In periods like this where all stocks get marked down, the real goal is to avoid loss of permanent capital. I am mindful that even a company as durable as Berkshire Hathaway has witnessed its stock go down 50% three times since Warren Buffet has been at the helm.

It is also important to remember that a stock's decline doesn't indicate a bad investment or business. In the end, it's all about the quality of the business model, the durability of the earnings and cash flow stream and what you pay to establish your investment. Jennifer and I will always be looking for these businesses and, once found, we will pay the appropriate price to ensure the margin of safety we need to generate great returns. As a rule, great investment returns emanate from these uncertain moments in the stock market, and we are rising to the occasion.

Most people who buy stocks think about it the wrong way. If the stock goes up they are happy but when it goes down they feel worse off, instead of thinking about what it will be worth five to ten years from now. I tell young people all the time that the greatest gift they have is the element of time and what compounding will do for them over long periods. You don't have to be brilliant, just smart enough to find the right businesses, buy them at the right prices and equally smart enough not to sell them when they are down with the market. The rest will take care of itself. Therefore, the right temperament to own and invest in the stock market is critical for success.

Equity Markets

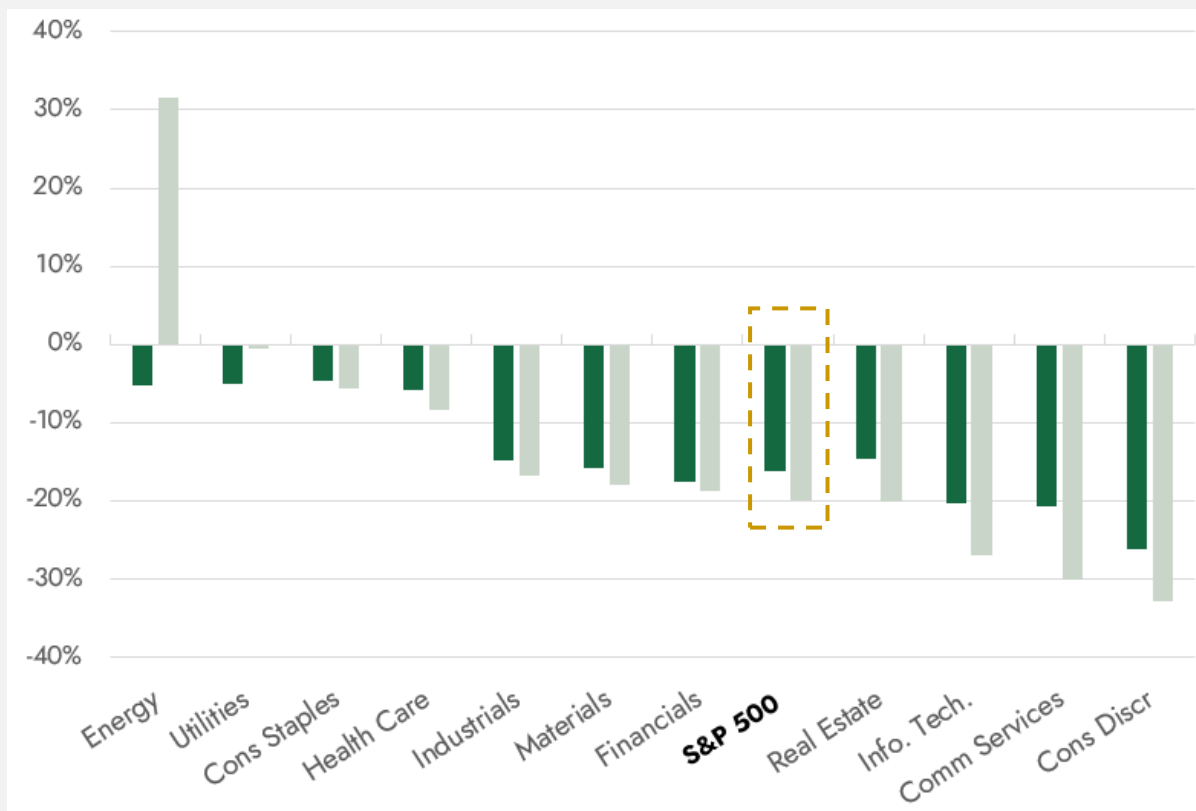
With the slowing macro economy, investors should scrutinize the earnings trajectory of companies and start to allocate capital to companies with strong earnings resilience.

During the first quarter of 2022, we saw a strong divergence of returns by style, with value outperforming growth, and that trend continued into the second quarter, but to a lesser degree.

The Russell 2000 Growth index fell -19.3% for the second quarter, while the Russell 2000 Value index declined -15.3%. Similarly, the growth-heavy Nasdaq fell a painful -22.3% in the second quarter while the S&P 500 index declined -16.1%. Year-to-date, the Nasdaq is down -29.2% and the S&P 500 is down -20.0%, the toughest start to the year since the 1970s.

As the graphic below demonstrates, every sector came under pressure during the second quarter, yet year-to-date leadership remains in the energy sector.

S&P 500 Performance by Sector



Source: Bloomberg

Fixed Income Markets

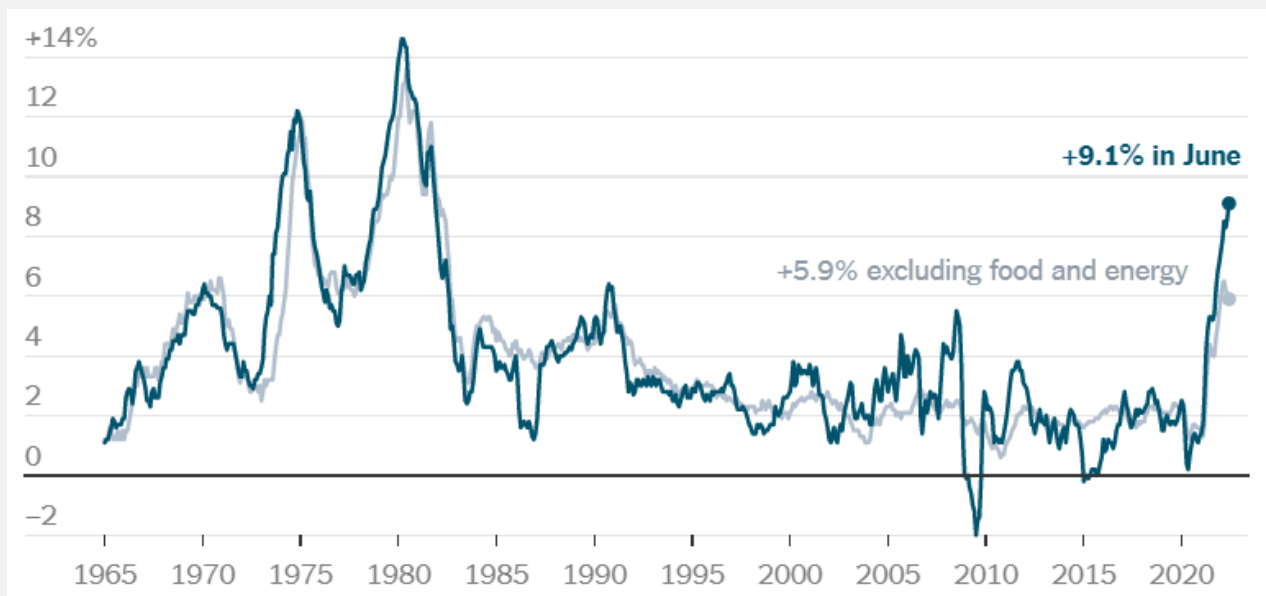
By projecting that his Fed was ready to do “whatever-it-takes,” Chair Powell set the stage for getting to a “neutral” level of rates sooner, even if that process would elevate the risk of recession.

As the 2nd Quarter came to a close, the Federal Reserve committed “unconditionally” to bringing down inflation at the expense of accepting a higher level of unemployment. In his testimony before both the US Senate and the House of Representatives, Chair Powell made clear that the Fed was at last entirely focused on bringing inflation down to the 2.00% threshold as soon as possible, even if it risked the possibility of a recession.

Powell conceded that achieving a “soft landing” for the economy would be highly challenging given the elevated levels for energy and other commodity prices as well as the lingering supply chain disruptions left over from COVID-19 that were continuing to complicate inventory levels. However, with employment remaining robust, Chair Powell felt confident that the Fed was making the right decision to tilt its policy focus away from “full employment” in the direction of bringing prices down across the board.

US Inflation

12-month percentage change in US Median CPI



Note: Not seasonally adjusted Source: Bureau of Labor Statistics

Powell's decision was to "super-size" for the first time since 1994 with a June rate move of 0.75%, above its previously announced "forward guidance" level of 0.50%. Through this more muscular action, Powell hoped to quell the market volatility that had prompted both 2-Year and 10-Year US Treasury yields to explode up toward 3.5%. By projecting that his Fed was ready to do "whatever-it-takes" to bring down inflation for the American people, Chair Powell set the stage for getting to a "neutral" level of rates sooner, even if that process would elevate the risk of recession.

By quarter-end, both US Treasury 2-Year and 10-Year yields had begun to retrace somewhat from their 2022 highs down toward and even through the 3.0% level, driven by substantial buying from US Institutional players needing quality duration and from foreign investors in search of the safety and liquidity of the US Treasury market. Despite his critics, Chair Powell met this challenge head-on and set the table for the next rate move of an additional 0.75% at the July Fed meeting. Such a move would be another milestone in the long road back to Fed credibility, after having maintained a "too loose for too long" policy of balance sheet growth and quantitative easing.

The second quarter of 2022 continued to offer significant repricing across the US Treasury curve. The most drastic quarter-over-quarter changes were seen in issues maturing in one year or less as the 6-month US Treasury bill had the most pronounced

movement with yields increasing by 1.47%. The repricing was mainly driven by the Federal Reserve's aggressive rate tightening in response to historical inflationary pressures. To this end, the Consumer Price Index reached 8.50% year-over-year, the highest level since 1981. Economic data, growth and consumer confidence slowed down, putting pressure on corporate bond spreads as investors feared disinflation and a possible recession in the near future. Gross Domestic Product (GDP), annualized for the first quarter, came in at -1.5% and the University of Michigan Current Economic Conditions Survey came in at 53.8, the lowest historical print on record. (The index measures consumer sentiment and economic data such as inflation; from 1951 until 2022, the index averaged 96.25 with an all-time high of 121.20 in 2018).

The municipal markets remained volatile throughout the quarter as investors focused on an economic slowdown, rising inflation, and tightening monetary policy. Municipal total return performance was negative across most of the yield curve with the short-end outperforming. That said, tax-advantaged significantly outperformed their taxable counterparts during the quarter. Outperformance was most pronounced in the 2- and 5-year sectors of the municipal yield curve as AAA-rated municipal yields rose 0.10% to 0.23% while US Treasury yields rose 0.61% to 1.14%.

US Bond Yields have soared as the Fed hikes rates

- 2-year-yield
- 10-year-yield
- Fed funds rate



Our Portfolios

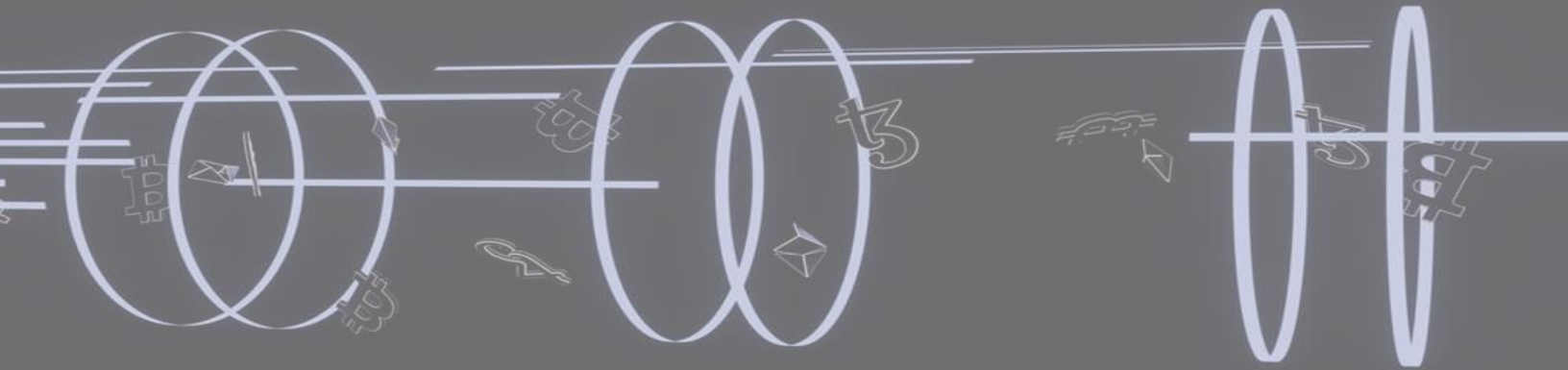
Equities: Searching for Opportunity in a Downturn

“Price is what you pay,
value is what you get.”

— Warren Buffett

Over the last several months as the world has tried to move on from the COVID pandemic, signs of a macro slow-down have developed all around us. With mortgage rates having nearly doubled since the beginning of the year, consumer and business sentiment falling sharply, inflation running hot, ISM New Orders falling below 50 as of the June reading, and inventories building in some consumer categories where there was pull-forward purchasing during COVID, investors have begun to consider what a potential recession might look like.





What's Impacting Performance?

Defensive sectors in general were strong [in Q2] with both Staples and Healthcare delivering relative out performance. More economically sensitive sectors, like Consumer Discretionary and Industrials, underperformed.

In the face of such a dramatically shifting macro picture, equity markets corrected with the P/E multiples contracting nearly 20% in the course of three months. Interestingly, aggregate earnings estimates for both Calendar Year '22 and '23 have barely changed since the beginning of the year suggesting that stocks may face more pressure as investors contemplate negative earnings revisions to come. During the 2nd quarter, defensive sectors in general were strong with both Staples and Healthcare delivering relative out-performance. More economically sensitive sectors like Consumer Discretionary and Industrials underperformed.

Much of the inflation that is choking the economy and causing the Fed to tighten was caused by excess liquidity from both monetary and fiscal policy which went to unprecedented levels during COVID. The lockdowns also shifted consumption patterns dramatically and created labor challenges that we are still working to overcome.

Bond investors and the Fed have moved to correct the excess market liquidity through raising rates. Many speculative asset classes including Bitcoin, profitless technology/ biotech, and SPAC indices have corrected from their COVID era highs by ~70-75% which suggests much excess liquidity has already come out of the system. But what the economic picture will be when the Fed's work is complete remains a central question.

During moments such as this it is important to remember that the Chilton portfolios are filled with companies that demonstrated good durability during the great recession of '08- '09 – a test we apply during our research process. In addition, we seek to invest in companies with organic growth opportunities. This defensive/offensive nature of the business models of the companies in our portfolios will be put to the test in the coming quarters, and we anticipate that these companies' results will showcase their resiliency.

Putting it all into Perspective

Recognizing both the strengths and challenges of our holdings, our resolve for sticking to high quality companies with long-term compounding attributes is as strong as ever. We are most compelled by opportunities in durable, free cash flow generating businesses with low debt and organic sources of demand and will continue to lean into these opportunities at valuations that allow for strong forward returns.

On the margin we are also leaning into companies in defensive industries that possess these attributes as well as companies with dependable sources of organic growth that have not been saturated by the consumer pull-forward purchasing habits of COVID.

We are excited by the price opportunities at hand and the attractive forward returns they will offer to a patient and long-term minded investor.

Our Portfolios

Fixed Income: Emphasis on High Quality Issuers

We continue to be a “tactical” buyer primarily of short US Treasuries, short Investment Grade Corporates, and short Munis—depending on needs within our various customized strategies.

Throughout the quarter, we continued to focus on high credit quality corporate issuers and increased our government exposure through US Treasuries and US Agencies. On average, duration stayed between 1-1.25 years, but we were comfortable layering in exposure in the 2-3 year part of the curve to capture higher yields.

Also in the front end of the market, corporate bonds remained attractive on a relative value to municipal paper. Throughout the quarter, we found opportunity to increase the Crossover Municipal portfolio’s exposure to higher credit quality while still offering higher yields on an after-tax basis.

For Chilton clients in the Crossover Strategy, we favored higher credit quality municipal bonds given the outlook for a potential slowdown in GDP for year-end 2022 through early 2023. In addition, in the Crossover Plus strategy we have opportunistically added to existing positions in the Qualified Dividend Income Preferred (QDI) sector with a focus on defensive structures.

Our Portfolios

External Managers: Focusing on Fundamentals

Our external managers were not immune to the challenging market conditions during the second quarter with few places to “hide” as equity markets repriced for higher rates. Our equity hedge funds generally outperformed, as exposures have come down and short books served to at least partially offset compression on the long side. Growth managers continued to come under intense pressure and ours were no exception, generally falling in line with their relative indices.

International markets were similarly challenged, if not more so during the quarter. That said, our international managers, focused on higher quality names, were generally able to outperform their indices but nonetheless declined.

Private Credit

Our credit managers continued to help buoy portfolios with better relative performance, providing a bit of ballast to a very choppy backdrop. Merger and acquisition activity has come to a halt in these markets, but several of our credit managers illustrated the benefit of increased volatility in the debt markets, creating sources of alpha for this and future quarters. Underwriting remains conservative with our credit managers, a true advantage in these more challenging times.

Private Equity

Private equity markets were similarly tested this past quarter, as private company valuations were adjusted downward, largely based on public company comparables. Our managers in the

private markets largely marked their books down about 20% in the quarter, bringing valuations in line with public markets. It was a more conservative stance to take, as no private companies to which we have exposure have raised capital in a “down round.” The mark-downs do, however, reflect the reality of today’s broader environment. We have been in close contact with our private managers: all of their private exposure is to companies that are executing on or ahead of schedule and have multiple years’ worth of cash on their balance sheets. While the near term is proving painful, their conviction remains highly elevated for future, strong performance.

Real Estate

In a pocket of good news, the Blackstone Real Estate Income Trust had a very solid quarter of positive performance, and Blackstone continues to cite very strong tailwinds for their portfolio properties. As the cost to purchase a home has put a pause on some home buying, rental properties, where BREIT is exposed, stands to benefit. Similarly, the Blackstone private credit fund had a nice quarter of returns, and announced a special dividend to shareholders, further enhancing returns. Their underlying credits are in very strong condition, and as they are all floating rate, this higher rate environment is pushing yields higher for investors. We continue to have very robust confidence in both strategies.

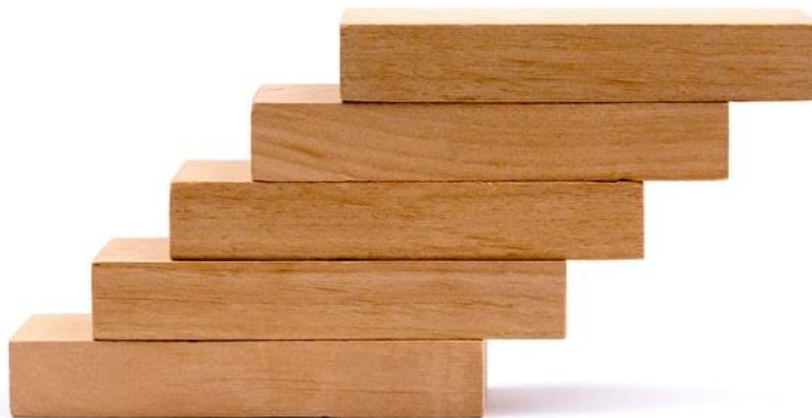
Our Outlook

Balanced Thinking Will Prevail

Even in the midst of market volatility and troubling macro indicators, we must stay balanced in our thinking and pay equal attention to the solid economic cushions in place as we head into this slowing economy:

- Ample bank reserves;
- Fundamentally healthy household balance sheets;
- Full employment with many job openings currently;
- A housing market that remains undersupplied; and
- The potential massive shift of global supply chains returning to North America.

None of these conditions were present when Lehman Brothers collapsed in September 2008, which is why the Great Recession of that era was so long lasting and severe. If we do go into recession, we would expect it to be shallow because of these economic buffers. Further Chinese lockdowns or more geopolitical conflict would potentially make our economic outlook worse.



There is also the distinct possibility for this market to rally—perhaps strongly—on signs that inflation is finally abating and that the Fed’s work may conclude earlier than the bears predicted. We do believe that a lot of bad news is discounted into stocks at current levels, perhaps most acutely in small caps which are trading over 20% below their long-term multiples. When inflation will fully unwind will likely be hard to predict given the myriad of factors contributing to it, and we are mindful that there could be fits and starts along the way. We have confidence that inflation will eventually be contained and that high-quality companies with strong business models will be best positioned to withstand shifting macro headwinds and emerge stronger when the storm passes.

We can see in the data that commodity inflation has rolled over, but the forward trajectory is probably a function of many factors including demand destruction, geopolitical tension, and North American energy policy. We are optimistic that demand destruction is happening with the slowing economy, and we are hopeful that geopolitics don’t get worse, but North American energy policy remains very unclear. Whether there is the political will to pass policy which would incentivize more US energy production is hard to say and perhaps will become clearer after the midterm elections—we will be paying close attention. With North American energy companies growing in their commitment to clean technologies for methane recapture and responsible drilling (which counterparts in other parts of the world do not demonstrate) and with needed relief from high

energy prices, we are hopeful that bi-partisan US energy policy will come together eventually, though this does not appear imminent.

Supply chain data also looks positive in terms of improvement, and this too will work to lower inflation. We can see a case where CPI eases from 9% currently to perhaps 4-5% in the year ahead, but how intent will the Fed be in getting inflation back to 2% even if curbing commodity inflation is somewhat outside of the Fed’s control? The extent to which the Fed is resolved to use a “blunt instrument” in monetary policy to effect positive outcomes in inflation readings is a central question to how severe the economic slowdown becomes.

The silver lining to turbulent markets is the terrific buying opportunities that present themselves. It is a moment just like this when strong and steady hands in the capital markets matters the most. We are as confident as ever in our tried-and-true investment process and energized by the prospects that this moment is offering. As ever, we thank you for your trust in us, 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.



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.

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