Chilton Investment Services

Quarterly Commentary

April 6th, 2015

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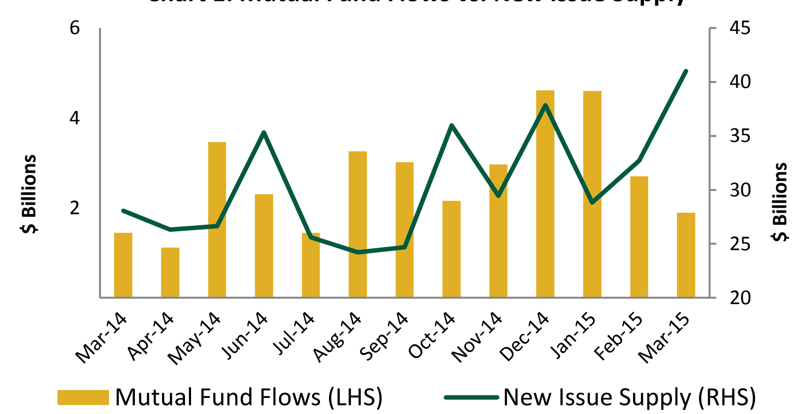
Strategy Changes Implemented in First Quarter 2015

- **Crossover Strategy:** Strategically reduced corporate exposure selling positions that are expensive on a relative value basis verse tax advantaged securities
- **Corporate Strategy:** Tactically increased our exposure to the energy sector to take advantage of credit spread widening
- **International Strategy:** Continue to increase exposure to the US dollar
- **Tax-Advantaged Strategy:** Strategically increased exposure to pre-refunded bonds due to relative value versus US Treasuries
- **Tax-Advantaged Strategy:** Following supply increases, moderately lengthened duration
- **Tax-Advantaged Strategy:** Increased exposure to revenue bonds, with a focus on healthcare bonds providing additional spreads

Municipals

Chart 1: Mutual Fund Flows vs. New Issue Supply



Source: Investment Company Institute, The Bond Buyer

The municipal market was mixed in the first quarter of 2015. Table 1 below illustrates the volatility across the municipal yield curve with a rally in January followed by a selloff in February. Outperformance was witnessed in the 5 through 10 and 30-year sectors with yields declining 6 to 9 basis points as investors moved cash from shorter-dated securities to the intermediate and long-end of the municipal curve, perhaps anticipating further flattening of the curve when it is expected that the Federal Reserve will increase the Fed Funds rate in the latter part of 2015.

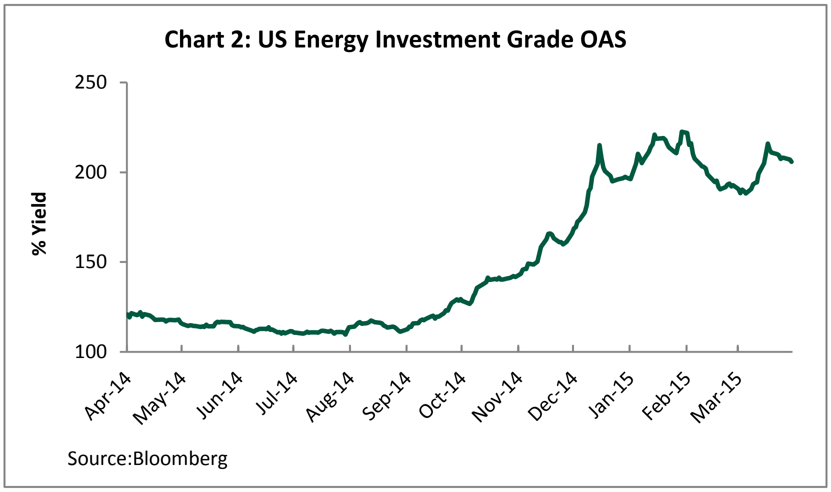
Table 1: AAA General Obligation Yields December 2014 - March 2015

	1yr	3yr	5yr	7yr	10yr	15yr	20yr	30yr
December	0.16	0.78	1.32	1.69	2.04	2.33	2.58	2.86
January	0.14	0.59	0.94	1.31	1.72	2.13	2.35	2.50
February	0.14	0.79	1.19	1.60	2.02	2.50	2.71	2.87
March	0.19	0.82	1.24	1.60	1.96	2.45	2.67	2.80
Change	-0.02	0.04	-0.08	-0.09	-0.08	0.12	0.09	-0.06

Source: Goldman Sachs, Bloomberg

Volatility in municipal yields appeared to be heavily influenced by the path of US Treasuries and a sharp increase in new issue supply throughout March. According to the Bond Buyer, long-term issuance for the quarter increased 59% to $102.5 billion from $64.5 billion from the same period last year. The surge in issuance was attributed to refunding activity as issuers took advantage of the low interest rate environment. On the demand side, retail flows moderated following a strong reinvestment period in January, perhaps due to overall volatility in rates along with investors preparing for April tax payments. (See Chart 1 above).

Corporates



In the first quarter of 2015, US corporate bonds were issued at a record pace with companies taking advantage of lower interest rates before an expected future rate hike. Total US investment grade corporate bond issuance is approximately $378.1bn (Source: Bloomberg) year to date which is up roughly 10% from the first quarter of 2014. M&A activity was a significant contributing factor, with Activis bringing a $21 billion offering, the second largest investment grade corporate issue in history.

Energy sector investment grade new issuance was up 29% (Barclays) from the first quarter of 2014 and comprised 13.5% of total new issuance. A rush to market by energy companies to access financing before markets potentially dry up helped spreads widen another 8bps following the fourth quarter widening of 65bps. While option adjusted yield spreads are significantly wider (See Chart 2 above), financing remains affordable due to the advantageous interest rate environment. Oil remained volatile during the quarter, though some stability has emerged following last year's dramatic selloff.

International

In the first quarter of 2015, the US dollar continued to rise versus major currencies as the US dollar index (DXY) rose 9%. This has largely been due to foreign Central Banks increasing stimulus to revive economic growth. The European Central Bank announced its long-awaited large-scale asset purchase program (QE) at its January meeting. Under the ECB QE, combined monthly purchases will amount to €60bn and the purchases will continue until at least September 2016. Government bond yields have fallen to record lows with German and Dutch ten-year yields hovering around 0.20% and Italian and Spanish yields only a percentage point or so higher. Comparing this to a ten-year Treasury yield of around 2.00% makes the US an attractive destination for investment. The euro realized its biggest quarterly slide versus the US dollar since its inception.

In January, the Swiss National Bank pre-empted the ECB move by removing the currency cap it had in place since September 2011, citing the cost of maintaining the peg. This announcement caused the franc to quickly rally approximately 30% versus the euro before moderating and ending the quarter up 13%.

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