Chilton Investment Services

Quarterly Commentary

April 11th, 2016

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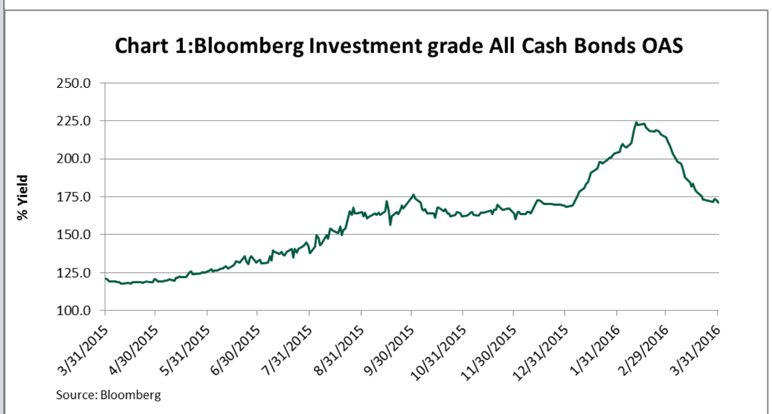
Themes In The First Quarter 2016

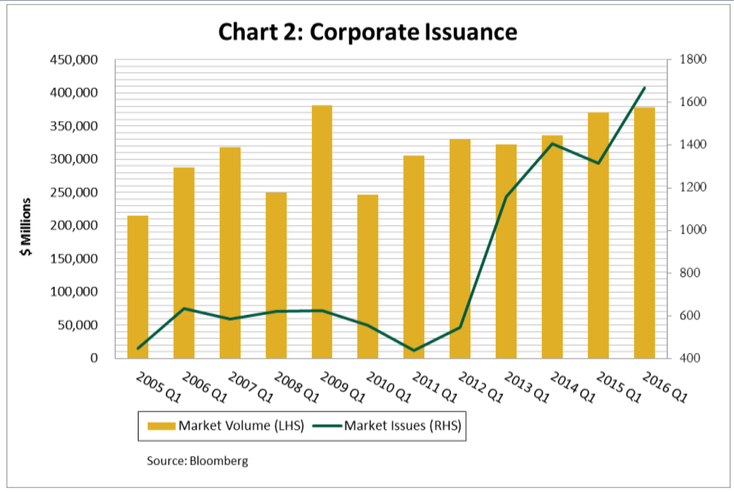
- Tax-Advantaged Strategy: Overweight A-rated revenue bonds. Extended duration across accounts given strong technical factors expected in the first quarter.
- Crossover Strategy: Tactically swapped out of corporate exposure and increased allocation to tax-advantaged securities reflecting improved relative view of Municipal market.
- Corporate Strategy: Volatility and new issue volume provided opportunity to add positions at attractive levels. Continued to add incremental duration.
- International Strategy: Maintained elevated exposure to US Dollar while closing out Hong Kong Dollar positions, reducing Mexican Peso, and adding Indonesian Rupiah.

Corporate Market

As the corporate bond market opened for the quarter so began the saga of "The Tale of Two Markets". From January until mid-February corporate bond spreads relentlessly widened on concerns that global growth was slowing and would diminish the prospects for credit. After reaching a wide on Feb 11th, spreads began to narrow, returning by the end of March nearly to levels seen at the beginning of the quarter (Chart 1). One of the main drivers of the turnabout was the market's changing perception of the Federal Reserve's likely responsiveness to weakening global economic conditions. Hinted at in Janet Yellen's testimony to Congress on Feb. 10-11, the March 16th Fed meeting confirmed that the Federal Reserve is not going to hike rates four times this year as the Fed projection known as the "Dot Chart" indicated at the start of the year. In addition, language acknowledging FOMC concern over global economic conditions was formally added back into their statement. This overall change in stance buoyed the credit market. The primary market reopened in earnest and a number of large deals were priced. In particular, long-awaited deals to finance major transactions including Anheuser Busch Inbev's purchase of SabMiller and the Newell Rubbermaid's acquisition of Jarden Corp. were well-received by the market, oversubscribed, and traded higher in price after the issuance.



Total US dollar corporate investment-grade (IG) bond issuance rose to $378 Billion (Chart 2), the strongest first quarter since 2009. In addition to the $46 billion Anheuser InBev offering and $8 Billion from Newell, Apple and Exxon Mobile each priced $12 billion deals. Notably, this trend could slow going forward as the value of announced, pending and completed M&A deals dropped 38% from the 4Q15 according to Bloomberg data. For the quarter, Bank of America Merrill Lynch index data indicate the corporate IG market modestly outperformed Treasuries.

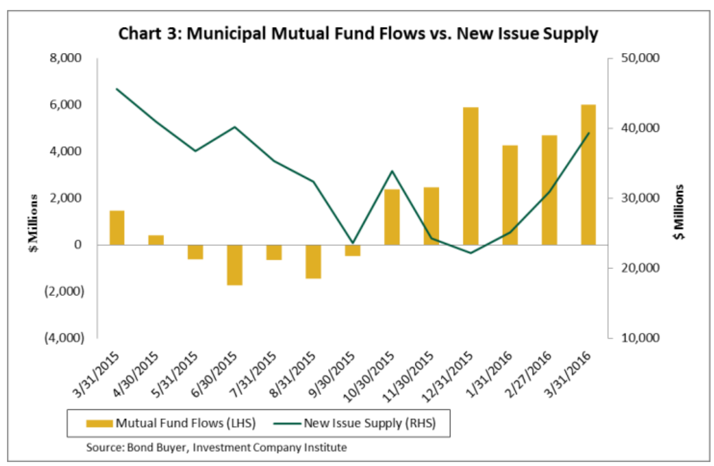


<u>Municipal Market</u>

The municipal market continued to exhibit solid performance with yields declining 11 to 30 basis points across the yield curve. Factors such as declining US Treasury yields and weak global economic data contributed to a rally in rates. Dovish comments from Federal Reserve Chair Yellen, indicating that the Fed would "proceed with caution" also added to declining fixed income yields.

In addition to the weak macroeconomic data, the decline in municipal yields was driven by strong technical factors. The "January Effect", a combination of heavy bond calls and redemptions with only limited long-term new issue supply were extremely supportive throughout the quarter. New issue volume has remained well below last year's levels, down 12% compared to the same period last year.

On the demand side, municipal bond funds have recorded 26 consecutive weeks of net inflows. As illustrated in the Chart 3, mutual funds reported approximately $14.9 billion of new subscriptions in the first quarter. Although investor demand for municipal securities remained positive throughout the quarter, municipals could not keep pace with the rally in US Treasuries.



The Municipal/Treasury ratio chart below (Table 1) illustrates the relative performance between municipals and US Treasuries over the quarter. As shown, municipal underperformance for the quarter was most pronounced in short -dated securities. By comparison, longer dated maturities performed better given increased tolerance for interest rate risk in light of more dovish FOMC language.

Table 1:

AAA-Rated Municipal Yields as a Percent of Treasuries, December 2015- March 2016				
	2-Year	**5-Year**	**10-Year**	**30-Year**
December	73%	71%	85%	94%
March	90%	89%	97%	103%
Quarterly Change	17%	18%	12%	9%