Chilton Investment Services
Quarterly Commentary
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Themes in First Quarter 2017

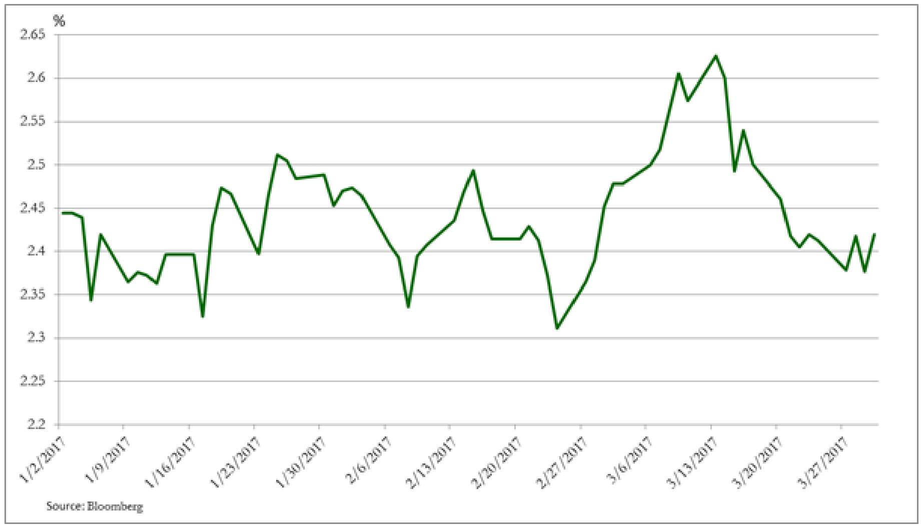
- **Tax-Advantaged Strategy**: Due to tight credit spreads, we focused on AAA and AA--rated revenue bonds in sectors such as transportation, dedicated tax, water and sewer, and regulated utilities. Added modest extensions to maintain a neutral duration relative to the benchmark.
- **Crossover Strategy**: Maintained an overweight allocation to tax-advantaged securities due to attractive valuations. Opportunistically added investment grade corporate bonds in the 5-year duration bucket.
- **Corporate Strategy:** Modestly extended duration by selling money-market eligible securities and purchasing investment grade corporate bonds with durations approximately 5-years. Due to tight credit spreads, increased our holdings to AA and A-rated bonds. We continue to maintain a focus on sectors such as financials, consumer staples, and industrial products.
- **International Strategy**: Maintained a U.S. dollar overweight due to evolving Federal Reserve policy.

With a backdrop of transitioning power from the Obama to the Trump Administration, the US Economy began Q1 with a heightened level of business and consumer confidence, anticipating the potential benefits of 3 key themes—Tax Cuts, Deregulation and Infrastructure spending. While the details remained elusive, confidence in President Trump's ability to deliver results continued to build particularly as reflected in rising asset prices.

With clear evidence of a tightening labor market and rising indicators of sustainable inflation, the Federal Reserve seemed at last confident to turn over the baton of economic leadership from monetary policy to fiscal policy. With the Upward trend in global growth much more secure, the Fed was at last ready to continue to normalize rates, following up its December move. While the market may have started the year expecting a much slower pace of Fed moves, it soon reacted commensurately by pricing in a March rate hike following the coordinated speeches of 11 Fed officials—several of whom switched from Dovish to more Hawkish postures on the appropriateness of accelerating rate hikes.

By the March Fed Meeting, Chair Yellen had built a winning consensus inside the FOMC to raise rates—only one dissenting vote—Neel Kashkari, Minneapolis Fed President, who based his objection on the historical approach that the Fed has demonstrated to not move before there is evidence of an actual inflation problem. The hike of 25 basis points— the third time since the cycle low and the second time in three meetings—was a tremendous coup for Chair Yellen, who, immediately following the meeting, classified this acceleration of policy as "gradualism." Her success could be measured in overall market acceptance, as evidenced by the US Treasury 10 year yields moving only modestly following the meeting, thereby impacting other Taxable, Tax Advantaged, and especially Emerging Fixed Income Markets.

Chart 1: US 10 Year Treasury Yield

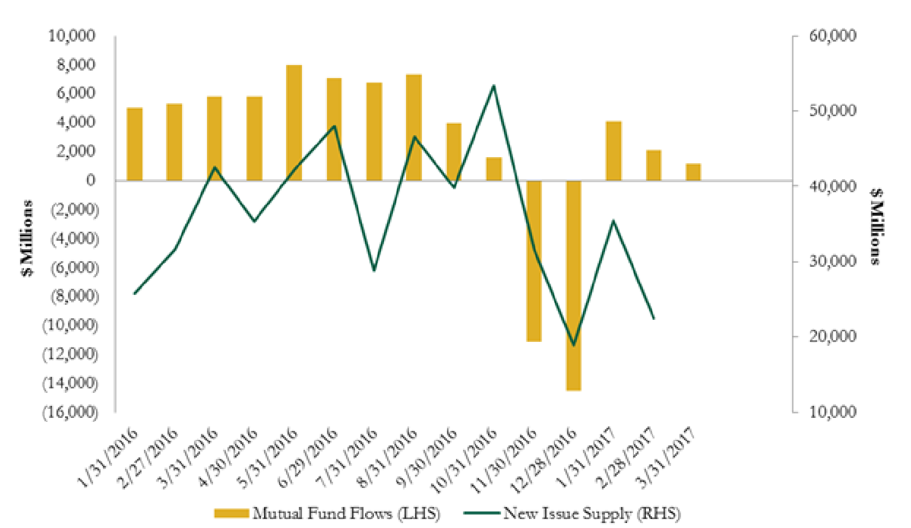


Municipal Market

The municipal market started the year on a constructive note as strong technicals associated with the quarter's high redemptions, large coupon reinvestments and limited new issue supply contributed to lower yields and positive total returns.

The major theme of the quarter was the lack of long-term new issue supply. As reported by the Investment Company Institute, retail investors contributed approximately $7.3 billion to mutual funds in 1Q2017. The combination of net inflows and limited supply, (evidenced in the green line in the chart Mutual Fund Flows vs. New Issue Supply) readied the market for a positive quarter. According to the Bond Buyer, issuance for the quarter was $87 billion, or 12% less than the same period last year when issuers sold $100 billion of debt. The pace of refunding deals, due to the rise in interest rates in the fourth quarter of 2016, contributed to the decline in new issue volume. According to the Bond Buyer, refundings for the quarter plummeted to $20.2 billion, or 53%, from $42.8 billion a year earlier. In addition, political uncertainty added uncertainty to the market which also contributed to a significant slowdown in long-term new issue supply. Some issuers remain sidelined as they await the outcome on the Trump administration's infrastructure policy, while others, such as healthcare issuers monitored the ongoing debate on repealing and replacing the Affordable Care Act.

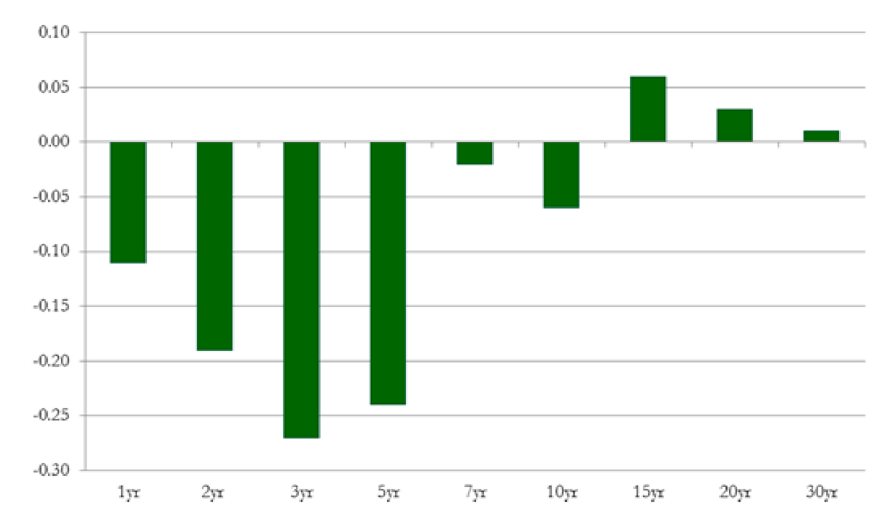
Chart 2: Municipal Mutual Fund Flows vs, New Issue Supply



Source: Bond Buyer, Investment Company Institute

The chart below (Chart 3) illustrates the change in the municipal yield curve throughout the quarter. According to Bloomberg, AAA-rated securities, with the exception of 15 to 30-year maturities, closed the quarter at lower yields than month-end December. The outperformance witnessed over the past quarter occurred in the 1 to 10-year sectors with yields declining 6 to 27 basis points. Accounts actively moved cash from the sidelines to the short-intermediate sector of the municipal yield curve in anticipation of curve flattening when the Federal Reserve normalizes interest rates. On a relative value basis municipals outperformance was most pronounced in the 2 to 5-year sectors with ratios tightening 21 and 12 percentage points, respectively.

Chart 3: AAA General Obligation Yield Changes December 2016-March 2017

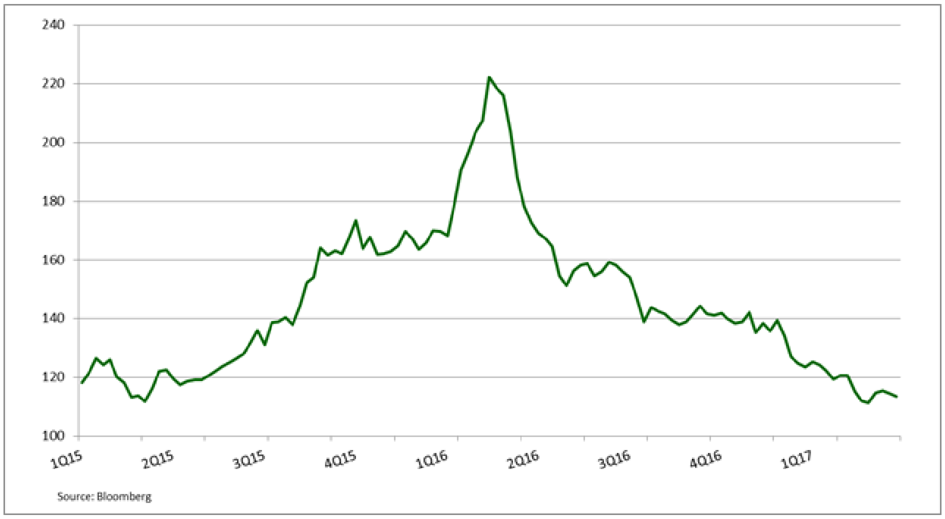


Source: Bloomberg

Corporate Market

First quarter 2017 was a broadly positive one for the corporate market as spreads tightened to tightest level since 4Q14 (see Chart 4 below). Still positive signs of economic growth and optimism that

Chart 4: Investment Grade Corporate Spread



business-positive policies would be forthcoming from Washington helped corporates out-perform Treasuries across the board. The BofA Merrill Lynch 1-10 year corporate index spread tightened by approximately 9 basis points to comparable Treasuries. The best performing major sector was the basic materials sector; tightening by 13 basis points. Anticipated infrastructure spending and announcements of domestic corporate capital expenditure plans drove optimism in the group. The lagging sector was utilities which only narrowed by 6 basis points as particular utilities struggled on fears that their mix of generation sources and alternatives (nuclear in particular) may fall out of favor. Particular retail bonds such as Kohl's and Macy's underperformed as it became clear that consumer shopping preferences are changing at a more rapid pace and retail is moving on-line. The individual names' movement wasn't enough to move the consumer discretionary sector lower overall as the sector spread narrowed 8 basis points, roughly in-line with the index as this was not a story of general weakness but a sorting of winners and losers in competition for the consumer's dollar.

Issuance was very heavy to start the year. $4.16 Billion of domestic investment grade corporates were written in the first quarter (see Chart 5 below). This would be a $1.6 Trillion annual pace well above the roughly $1.3 Trillion pace of 2015 and 2016. The issuance was attributed to a mix of a need to refinance maturing debt, finance cap-ex, retire stock, and acquisition financing. All attributed to a rush to lock in low rates and beat out any anticipated increase in yields caused by the FOMC increasing rates and fomenting inflation. The supply was well received by end investors as the search for yield outweighed these concerns, which remain in the background in investors' minds for now.

Chart 5: Investment Grade Corporate New Issuance

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