



# REVIEW & OUTLOOK

4TH QUARTER

2006

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### Annualized Returns

	4th Qtr	1 Year	3 Year	5 Year	7 Year	Since Inception 3/31/1996
<b>CCM Growth</b>	8.6	16.7	11.4	6.5	2.6	11.3
Russell 1000 Growth	5.9	9.1	6.9	2.7	(4.9)	6.6
S&P 500	6.7	15.8	10.4	6.2	1.1	9.4

### Annualized Returns

	4th Qtr	1 Year	3 Year	5 Year	7 Year	Since Inception 6/30/1998
<b>CCM Conservative Growth</b>	7.0	11.5	7.9	5.0	1.7	5.5
Russell 1000 Growth	5.9	9.1	6.9	2.7	(4.9)	0.9
S&P 500	6.7	15.8	10.4	6.2	1.1	4.3

### Annualized Returns

	4th Qtr	1 Year	3 Year	Since Inception 12/31/2002
<b>CCM High Quality Tax Exempt Bond</b>	0.8	4.0	3.1	3.6
Lehman 5 Year Municipal Index	0.6	3.3	2.3	2.8

### Performance Review

U.S. equity markets continued their advance through the fourth quarter of 2006. The S&P 500 closed the three months ended December 31, 2006 up 6.7%, with the Russell 1000 Growth Index gaining 5.9%. Chilton Capital Management's (CCM) Growth Equity (+8.6%) and Conservative Equity composites (+7.0%) beat both the S&P 500 and Russell 1000 Growth Indices during the quarter. Comparisons for the twelve months ended December 31, 2006 were equally strong; CCM's flagship Growth Equity strategy posted gains of 16.7% for the year vs. the S&P 500 (+15.8%) and Russell 1000 Growth (+ 9.1%) Indices. Our Conservative Equity strategy rose 11.5%. Strong corporate profit growth, moderate inflation (in spite of rising commodities prices), and a halt in interest rate hikes by the Federal Reserve helped drive equity returns higher for the year. Sectors with particularly strong showings included energy, materials, utilities, and telecommunications.

### Politics and Our Portfolios

*"It's the economy, stupid"- and Iraq, energy, immigration, health care...*

Perhaps the most important event of 2006 for Main Street as well as Wall Street was the outcome of the November mid-term elections. Clearly, voters were unhappy with the results and the costs of the Iraq war in both human and monetary terms. Although dissatisfaction with the conduct of the war may have been instrumental in delivering House and Senate majority to the Democrats, we suspect the shift in leadership will impact economic and domestic issues more than any other. Since Ronald Reagan was first elected in 1980, the country has slowly moved to the right politically and has been largely pro-business. A move back toward the political left on many issues is now likely.

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The political campaigns seemed to reveal a deep anxiety about the future of the U.S. To be sure, Uncle Sam's image abroad has deteriorated sharply in recent years. Perhaps more tangible to most voters, global wage arbitrage has eroded the earnings of middle and lower income workers. Predictably harsh rhetoric leading up to the elections aside, most Democratic congressional leaders recognize that railing against economic globalization will not raise U.S. incomes. The present challenge is how to minimize future negatives without derailing the economy.

The first 100 hours of Democratic leadership have now begun. While some items on the agenda have extensive bi-partisan support and will likely pass by a wide margin (a hike in the minimum wage, for example), some may pass only narrowly. Others will be vetoed by President Bush. For this reason, initial legislative impacts of the ideological shift may be minor. Nevertheless, newly installed Democratic committee chairmen are sure to change policy direction and intensity of program oversight for at least the next two years. Given the populist flavor of the Democratic Caucus, some movement toward pro-labor/pro-consumer policies is likely. Of particular prominence is health care. Much has been written about expected House efforts to change the current system. Congress may attempt to change Medicare funding to eliminate or drastically reduce the size of the "donut hole" in prescription drug coverage for seniors. An obvious step in this direction would be to require direct negotiation of drug prices between the Secretary of Health and Human Services and U.S. drug manufacturers. We can also expect much talk and possibly some action toward insuring the roughly 46 million Americans without health care coverage.

Health care initiatives alone will require large increases in spending. This will be a significant hurdle for the new Congress as most Democrats have campaigned on a promise to restore fiscal discipline to the federal government. Given Washington's historic inability to curb spending, increased revenues seem the likely (only?) route via tax increases and/or a continued strong economy. Raising revenues by simply letting 2001's "temporary" tax cuts expire is an easy solution politically. Scheduled expiration, however, is set for 2010 – a long way off by D.C. measures. So it is quite possible new tax increases will be proposed even though President Bush will probably veto them. Any tax increase would most likely result in the top income tax bracket returning to 39% from 35% at present. Tax rates on capital gains and especially dividends would also likely increase.

*"...initial legislative impacts of the ideological shift may be minor."*

Given their desire to increase domestic spending, the announcement of Robert Rubin as an economic advisor by incoming Speaker of the House Nancy Pelosi leads us to believe that continued economic growth will be a high priority for the Democrats. Mr. Rubin earned global respect as a centrist, pro-market, Secretary of the Treasury under Clinton. Two years ago Mr. Rubin teamed with economist Peter Orszag of the Brookings Institution to create a plan that addresses what both believe ails the U.S. Rubin recruited some Democratic heavyweights including Lawrence Summers, Rubin's successor at Treasury, to help design, launch and promote what they are calling The Hamilton Project. Named for Alexander Hamilton, first U.S. Secretary of the Treasury, the Project calls for fiscal discipline; increased public involvement in key growth-enhancing areas such as education, innovation, and infrastructure; and encouraging personal financial security through increased savings and social insurance. These are laudable goals. Thankfully, The Hamilton Project also underscores the role of "effective government" as a critical component in realizing the goals articulated therein.

We believe The Hamilton Project's strategy plays well into our view of where to invest for the next few years, and, importantly, that Rubin et al's vision will have significant influence on key Democratic leadership and priorities. Our commitments to life sciences and technology reflect our belief in the growth thesis as espoused by Mr. Rubin and his followers. We also think growing support for plans or programs that encourage individual savings will benefit our various investor-oriented holdings in the financial services industry.

We welcome Rubin's apparent role as an economic thought leader for the Democrats. We believe he can be a moderating force to help bridge the philosophical gap between the current administration and the new Democratic con-

gress. Both he and current treasury secretary Hank Paulson share the distinction of having been chairmen of Goldman Sachs. We suspect they are of similar mind on many issues.

Over the next two years, it will be especially important to see what faction of the Democratic Party gains power heading into the 2008 presidential elections. If it is the practitioners of "Rubinomics," we will sleep well. We would not be enthused by, nor do we think the markets will react well to, the emergence of either of two other schools of thought. One is the old-line tax-and-spend faction (as distinct from the current Republican borrow-and-spend iteration) complete with class warfare, trade restrictions, and greatly expanded government. The other school of thought is led by Joseph E. Stiglitz. Dr. Stiglitz is a respected Columbia University economics professor who shared the 2001 Nobel Prize in economics. He served previously as chief economist at the World Bank and as chairman of the Council of Economic Advisors during the first term of the Clinton administration. Dr. Stiglitz proposes a number of new government initiatives including some he believes will redress the global disparity in wealth that has been part of globalization. While we can not judge the long-term merit of his proposals, over the short-term it seems probable that some market participants, particularly those in developed countries, would find his policies unreasonably aggressive.

We will be doing more Washington watching than ever in the next two years. The critical issue for us as investors and advisors is to position our clients' portfolios in ways that leverage expected shifts in policy. So what do we own and what are we buying? Based on what we see today – and driven to some degree by what we think are compelling valuations on selective companies and industries - we are initiating and adding to commitments in the broader applications of technology and healthcare. As has been our pattern for several years, we find emerging and innovative companies of particular interest. Investor-related global financials like investment banks and asset managers are also core components of CCM discretionary portfolios. Money can be made by investors no matter who rules in Washington. The U.S. economy has proven over many years to be resilient to all manner of interfering by politicians and bureaucrats. We expect the meddling and the resilience to continue.

*"Money can be made by investors no matter who rules in Washington."*

### Fixed Income Commentary for Fourth Quarter 2006

Results of the November elections notwithstanding, the Federal Open Market Committee (FOMC) held the federal funds rate steady for the fourth consecutive meeting. As in the third quarter, the FOMC left the door open to the possibility of future interest rate hikes. Their statement, "the extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information" indicates that FOMC members are not sure of the direction of the economy or what impact the firming of interest rates and subsequent pause have had on the economy and inflation.

Interestingly, during all the meetings during the third and fourth quarters the same ten members have voted to hold interest rates steady. Only one member, Jeffery M. Lacker, has voted against the action and has preferred an increase of 25 basis points at each of the last four meetings. Clearly, there is some disagreement among the FOMC members as to what the information they are interpreting indicates. What does all of this mean for consumers and investors in 2007?

Over the last year, the yield curve has been inverted. This means that short-term interest rates are higher than long-term interest rates. In fact, on January 11, 2007 the 6-month U.S. Treasury bill rate was higher than the 30-year U.S. Treasury bond rate by 32 basis points. We anticipate this inversion of the yield curve will continue for several quarters, if not the entire year. Therefore, we are still looking for opportunities to buy taxable bonds in the 7-10 year range but are shortening the duration of the portfolios by buying taxable bonds with maturities of 3-5 years. Even though the taxable yield curve has been inverted for the past year, the municipal bond curve is relatively normal with

interest rates increasing over the length of the curve. However, tax-exempt investors are not benefiting significantly by buying longer maturities. As a result we are buying tax-exempt bonds in the three to ten year range.

The ten-year US Treasury Notes yield increased 8 bps from 4.63% to 4.71% with the low yield being 4.43% and the high yield being 4.83% during the quarter. The Bond Buyer 20 weekly index, a municipal bond index that is comprised of 20 General Obligation bonds rated "A1" by Moody's Investors Service with maturities of 20 years, decreased 6 bps from 4.23% to 4.17% with the low yield being 4.03% and the high yield being 4.33% during the quarter. In general, bond values were unchanged to slightly increased as a result of the interest rate movement during the quarter.

Per our normal practice, we will continue to monitor domestic and global events and their impact on both the equity markets and the bond markets. If any event or combination of events causes us to revise our outlook, we will modify our portfolios to continue to take advantage of any trends we recognize. 2007 could shape up to be a year of considerable change; however, we are still long-term investors and we will evaluate each change accordingly. We will not react to a short-term change just to react. We will carefully evaluate each change and determine how that change could potentially harm or help our portfolios. Not all change is bad.

## Performance Disclosures

GROWTH COMPOSITE								
Year End	Total Firm Assets (millions)	Composite Assets			Annual Performance Results			
		U.S. Dollars (millions)	% of Firm Assets	Number of Accounts	Composite Gross	Composite Net	Russ 1000 Growth	Composite Dispersion
2006	350	97	28%	63	16.73%	15.60%	9.1%	1.19%
2005	304	76	25%	50	12.78%	11.66%	5.27%	0.50%
2004	256	43	17%	27	4.97%	3.95%	6.30%	0.68%
2003	215	42	20%	29	28.27%	26.98%	29.76%	1.31%
2002	165	15	9%	19	-22.66%	-23.45%	-27.89%	2.30%
2001	155	25	16%	31	-19.46%	-20.28%	-20.42%	4.30%
2000	172	37	22%	32	8.33%	7.26%	-22.43%	1.60%
1999	137	17	12%	17	34.37%	33.07%	33.16%	14.43%
1998	109	25	23%	12	25.17%	23.95%	38.71%	4.70%
1997	99	21	22%	12	29.23%	27.97%	30.49%	2.90%
1996	30	11	35%	5 or fewer				

CONSERVATIVE GROWTH COMPOSITE								
Year End	Total Firm Assets (millions)	Composite Assets			Annual Performance Results			
		U.S. Dollars (millions)	% of Firm Assets	Number of Accounts	Composite Gross	Composite Net	S&P500	Composite Dispersion
2006	350	9	3%	10	11.53%	10.40%	15.79%	2.08%
2005	304	60	20%	36	8.33%	7.24%	4.89%	1.17%
2004	256	54	21%	41	3.84%	2.82%	10.87%	0.64%
2003	215	64	30%	43	28.17%	26.92%	28.69%	1.60%
2002	165	12	7%	13	-20.66%	-21.44%	-22.10%	1.90%
2001	155	15	9%	9	-18.12%	-18.92%	-11.86%	N.A.*
2000	172	15	9%	5 or fewer	7.32%	6.30%	-9.12%	N.A.*
1999	137	15	11%	5 or fewer	31.39%	30.15%	21.03%	N.A.*
1998	109	8	7%	5 or fewer				

2006 GROSS AND NET QUARTERLY PERFORMANCE FOR COMPOSITES								
	1Q 2006		2Q 2006		3Q 2006		4Q 2006	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Growth Composite	5.8%	5.5%	-4.1%	-4.4%	6.0%	5.7%	8.6%	8.3%
Conservative Growth Composite	2.3%	2.0%	-3.7%	-4.0%	5.8%	5.6%	7.0%	6.7%

HIGH QUALITY TAX-EXEMPT BOND COMPOSITE								
Year End	Total Firm Assets (millions)	Composite Assets			Annual Performance Results			
		U.S. Dollars (millions)	% of Firm Assets	Number of Accounts	Composite Gross	Composite Net	Lehman 5 Yr Muni	Composite Dispersion
2006	350	20	6%	17	3.97%	3.54%	3.34%	0.53%
2005	304	19	6%	16	2.19%	1.77%	0.95%	0.68%
2004	256	15	6%	11	3.12%	2.71%	2.72%	N.A.*
2003	215	7	3%	Five or fewer	4.99%	4.73%	4.13%	N.A.*

2006 GROSS AND NET QUARTERLY PERFORMANCE FOR COMPOSITE								
	1Q 2006		2Q 2006		3Q 2006		4Q 2006	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
High Quality Tax-Exempt Bond Portfolio	0.1%	0.0%	0.0%	-0.1%	3.0%	2.9%	0.8%	0.7%

\*Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Chilton Capital Management, LP (CCM) is a registered investment advisor. The firm maintains a complete list and description of composites, which is available upon request.

The CCM Growth Composite contains fully discretionary taxable and tax-exempt growth equity accounts. Prior to March 1, 2003, this composite contained only taxable growth equity accounts. The Conservative Growth Composite contains fully discretionary conservative growth equity accounts. The minimum account size for each composite is \$250 thousand. For comparison purposes, the Growth Composite is measured against the Russell 1000 Growth Index. In materials shown prior to January 1, 2005 the composite was measured against the S&P 500 Index which was changed retroactively to better reflect the composite strategy. The Conservative Composite is measured against the S&P500 Index for comparison purposes. Balanced portfolio segments are not included in the composites. Though leverage is not part of the firm's strategy, it is occasionally used in the Growth Composite. The Growth Composite was created April 1, 1996 and the Conservative Growth Composite was created July 1, 1998. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in the composites. As of December 31, 2006, the Growth Composite contains approximately 51% of the accounts managed in that strategy and the Conservative Growth Composite contains approximately 75% of the accounts in that strategy. Past performance is not indicative of future results.

The U.S. dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the accounts. A fee schedule is an integral part of a complete presentation. Net of fee performance is calculated using the highest management fee as described in Part II of the firm's ADV, which is available upon request. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding the policies for calculating and reporting returns is available on request.

Chilton Capital Management, LP has prepared and presented this report in compliance with Global Investment Performance Standards (GIPS®).

A third-party verification as set forth by the GIPS standards has been conducted by Ashland Partners & Company LLP from April 1, 1996 through June 30, 2006. A copy of the Independent Verifier's Report is available upon request.

High Quality Tax-Exempt Bond Composite contains fully discretionary non-custom fixed income accounts and for comparison purposes is measured against the Lehman 5-Year Municipal Index. The minimum account size for this composite is \$200 thousand. Chilton Capital Management, LP has prepared and presented this report in compliance with Global Investment Performance Standards (GIPS®).

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in this composite. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net of fee performance was calculated using the highest management fee of 40 basis points per year. Prior to January 1, 2004, the highest management fee was 25 basis points per year. A fee schedule is an integral part of a complete presentation and is described in Part II of the firm's ADV, which is available upon request.

Balanced portfolio segments are not included in this composite. Leverage is not used in this composite.

The High Quality Tax-Exempt Bond Composite was created January 1, 2003.

The Independent Verifier's Report is an integral part of this presentation.