Brown Brothers Harriman

BBH Partner Fund – Small Cap Equity

Quarterly Fund Update / 3Q 2022

The BBH Partner Fund – Small Cap Equity ("Fund"), sub-advised by Bares Capital Management, Inc. ("Bares"), declined -4.02% in the third quarter of 2022 compared with a -2.19% decline in the benchmark Russell 2000 index. In the year-to-date period, the Fund declined -30.77% compared to a decline of -25.10% for the benchmark index. These performances continue a streak of Fund and equity market declines in a year beset by economic and geopolitical challenges and uncertainty. The resulting volatility and pessimism have left few corners of the market unscathed. Especially for growth-oriented small- and micro-cap equities, the market's favor has fallen acutely since a year ago. We do not know when sentiment for these broad categories of equities will turn in the days, weeks, or months ahead. We do know, however, that when measured over years and through cycles, share price performance tracks intrinsic value[1] creation. Further, we believe that intrinsic value creation is an output of business models, competitive positions, reinvestment opportunities, and management aptitude, which is why our intense focus remains on these qualitative factors.

Performance
As of September 30, 2022

	Total Returns		Average Annual Total Returns				
	3 Mo.*	YTD*	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception
Class I	-4.02%	-30.77%	-35.30%	N/A	N/A	N/A	-31.75%
Benchmark	-2.19%	-25.10%	-23.50%	N/A	N/A	N/A	-20.21%

Class I Inception: 7/8/2021

Class I: Total Expense Ratio (%): 0.93

* Returns are not annualized.

Performance data quoted represents past performance. Past performance does not guarantee future results, and current performance may be lower or higher than the past performance data quoted. The investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than the original cost. For the most recent month-end performance, call 1 (800) 625-5769. *Fund shares redeemed within 30 days of purchase are subject to a redemption fee of 2.00%.*

The Fund's benchmark is the Russell 2000 index.

Expenses are based on estimated amounts for the current fiscal year.

Sources: BBH & Co. and Russell

Given the broad downturn in publicly traded equities, the market values of many companies – including those in our portfolio – have deteriorated, even when underlying fundamentals have not. With limited exceptions and despite inflation and economic deceleration, the businesses we own have continued to perform well. We see a widening divergence between share price drawdowns that imply fundamental impairment and operating results that suggest adroit execution and steady progress. Despite the market downturn, the drivers and trajectories of long-term intrinsic value creation in our portfolio remain intact, fortifying our patience, resolve, and optimism. To us, these turbulent times represent investment opportunity, and we continue to take advantage by adding opportunistically to our existing positions and establishing new holdings in exceptional businesses at attractive prices.

Performance Drivers

Our best-performing position during the quarter was **XPEL (XPEL)** with a share price gain of 40.3%. As a reminder, XPEL provides paint protection film ("PPF") and related products such as window film through a network of captive third-party installers and some company-owned locations. The company sells proprietary film under exclusive agreements to installers, who benefit from the supply of reliable, high-quality materials; industry-leading vehicle pattern software; extensive operational and marketing support; and dominant brand recognition. These benefits drive superior economics to installers, thereby creating "switching costs" and a differentiated position for XPEL that has allowed it to take share from industry incumbents while driving market expansion for PPF. The company is applying this playbook to large, adjacent markets in window film, which exhibit similar competitive dynamics and opportunities for market share gains. Importantly, given its consistent profitability and strong balance sheet, XPEL can self-fund its growth with the flexibility to make strategic and tactical investments in acquisitions and working capital. This advantageous optionality is a testament to the company's prudent and capable management team, led by long-time CEO and major shareholder, Ryan Pape.

---

[1] Intrinsic value is Bares' estimate of the present value of the cash that a business can generate and distribute to shareholders over its remaining life.

XPEL has weathered headwinds from automotive industry supply chain disruption, pandemic-related lockdowns in China (one of its largest markets), and input cost inflation. This was on continued display in the company's most recently reported second quarter results. On the strength of its operational execution, overall market growth for PPF, and share gains across its product lines, XPEL sustained revenue growth above 20% and expanded earnings before interest, taxes, depreciation, and amortization ("EBITDA") margins beyond 20%.

Despite the aspersions cast by a meaningful share price decline earlier in the year, XPEL is proving itself to be resilient in the face of intensifying challenges. We continue to believe that XPEL is poised to sustain mid-teens or higher rates of EBITDA growth and that the stock is trading materially below our conservative estimate of intrinsic value. These considerations inform our decision to maintain XPEL as one of the largest positions in the portfolio.

Top 10 Companies As of September 30, 2022	
XPEL Inc	11.8%
Agilysys Inc	10.2%
Alarm.com Holdings Inc	9.9%
PagerDuty Inc	7.1%
Model N Inc	6.3%
Olo Inc	4.8%
Onto Innovation Inc	4.4%
Papa John's International Inc	4.3%
Element Solutions Inc	4.2%
EVERTEC Inc	3.8%
Total	**66.9%**

Reported as a percentage of total portfolio. Holdings are subject to change.

Our second-best performing position was **Model N (MODN)** with a share price gain of 33.6%. MODN is a leading provider of revenue management software to companies in the life sciences and high-tech industries. The life sciences and high-tech verticals share two characteristics from a sales perspective: (i) a heavy emphasis on go-to-market execution over time-limited product cycles that increases the need for coordinated and optimized revenue management; and (ii) meaningful sales volumes through large numbers of channel partners and distributors with individually negotiated contracts. These features create significant complexity and costs of failure associated with revenue management processes such as pricing, quoting, contracting, rebates, and incentives. MODN's software solutions allow its customers to streamline and manage these mission-critical processes, creating significant switching costs that strengthen the company's competitive position. MODN is the clear industry leader for this category of software, counting 24 of the top 25 life sciences companies and high-tech companies such as AMD, Micron, and Samsung as customers. Despite this penetration, MODN still has significant opportunity to drive greater adoption of its core products and cross-selling of ancillary products in both target and adjacent markets. To that end, the company is pursuing an on-premise-to-software as a service ("SaaS") transition in its product architecture and a go-to-market evolution under the leadership of enterprise software veteran Jason Blessing, who succeeded founder and previous CEO Zack Rinat.

MODN has steadily worked to transition its products and migrate its customers to SaaS offerings, which has predictably muddied the company's financials as it trades high-margin upfront license revenues for ratably recognized and earned SaaS revenues. Given its strong competitive position, customer lock-in derived from its products' mission-criticality, and an enhanced value proposition facilitated by the migration to SaaS, MODN has steadily grown its ARR. In recent quarters, the company has also begun to experience an inflection in revenue growth as subscription revenue (growing at over 20% y/y) becomes a greater percentage of the total. This is, in turn, driving operating leverage and improvements in profitability and cash flow.

MODN is a rare example of a secularly growing, small-cap company that has generated a positive return in the year-to-date period. Despite this performance, we continue to believe that the current market value fails to fully reflect the company's ability to sustain double-digit revenue growth with substantial operating leverage to drive outsized growth in profitability in the years ahead. On these merits, we believe MODN continues to earn its status as one of our top holdings.

Our worst-performing holding during the quarter was **Cimpress (CMPR)** with a share price decline of 37.1%. As a reminder, Cimpress provides customized printed products through several brands, among which Vista is its largest and best-known. The company has invested extensively in technology and automation to create a "mass customization" printing infrastructure that allows it to aggregate small-batch orders and deliver a high degree of designability while driving volume and scale efficiencies that allow it to offer lower price points more typical of standardized products. This approach provides CMPR with scale-based cost advantages in production that competitors, primarily local print shops, are hard-pressed to match. The company is also leading an e-commerce transition in the printing industry, resulting in ordering and fulfillment conveniences that traditional, sub-scale printers struggle to replicate. Armed with these advantages, CMPR is taking share in a large, fragmented, and historically local $70 billion U.S. printing industry. In addition, the company has a leading position in the European market and the ability to expand into other product categories where it can leverage its scale and "mass customization" infrastructure to add additional vectors of growth. Founder & CEO Robert Keane continues to lead CMPR and has a particularly exceptional degree of investor alignment as the largest individual shareholder.

Unsurprisingly, the onset of the COVID-19 pandemic in early 2020 and the resulting reduction in in-person activity wreaked havoc on the company's operations and revenue. Then, as the economy reopened, the company experienced materials and labor cost inflation, putting further pressure on margins. While managing through these inauspicious circumstances, CMPR continued to invest in the upgrade of its technology infrastructure, rollout of new

services, and launch of new product lines to enhance its customer value proposition and competitive position. This lengthy process of business evolution, stymied by the pandemic, has finally seen the launch of Vista on the new technology platform in the U.S. Total revenue is close to recovering its pre-pandemic level with many segments exceeding those levels at higher levels of profitability. Meanwhile, industry-wide challenges of the last two years have allowed the company to consolidate its position in the market. With essentially all of Vista's business now on the new platform, CMPR is poised to see its largest segment return to growth and improved levels of profitability in the years to come.

CMPR has encountered a more difficult operating environment in recent years that has enveloped the company in investor pessimism. Nevertheless, CMPR's competitive position in a large and fragmented market has only strengthened through the pandemic, and the company's disciplined investments should accelerate share gains as the printing industry transitions online. Revenue headwinds have given way to cost headwinds that have hampered CMPR's ability to realize operating leverage and more meaningful margin expansion in recent years. That said, our research indicates that these headwinds are temporary and that the company will reap the benefits of its enhanced competitive position over the medium- to long-term. As a result, CMPR should see growth re-accelerate and margins improve in the years to come. We believe the market is taking an overly pessimistic view and is discounting CMPR's shares such that the company has become an increasingly attractive risk-reward proposition.

Our second-worst performing position was **Upwork** with a 33.1% decline from our cost basis. We began establishing a position in Upwork with a smaller-than-usual target weighting at the end of the second quarter and completed our initial round of purchases during the third quarter. We will introduce and discuss the company in further detail in the Portfolio Activity section below.

Portfolio Activity

The third quarter of 2022 was another especially active time for the portfolio. We elected to trim modestly from **ALRM, MODN, PD,** and **XPEL** – positions that have exhibited stronger relative performance – to rebalance into existing positions that we believe have become incrementally attractive places to deploy capital, with our most material additions in **HCAT, IRMD, OLO,** and **TDUP.** As in the last quarter, research productivity and market conditions have augmented our opportunity set, which resulted in the establishment of two new positions during the quarter: Franklin Covey and, as mentioned above, Upwork. Toward the end of the quarter, we also began building a position in another company that we will introduce in a future update.

Our first new position, **Franklin Covey (FC),** is a leading provider of talent and leadership development training content and services to enterprises. The company was formed in 1997 through the merger of the Franklin Quest Company, which commercialized the Franklin Planner and the principles underlying it developed by founder Hyrum Smith, and Stephen Covey & Associates, which commercialized the principles developed by founder Stephen Covey in books like *The 7 Habits of Highly Effective People.* Since then, FC has developed and offered courses and content for its client organizations to use in their talent and leadership development programs. By virtue of its long history, market share, and brand awareness aided by mass-market recognition of the Franklin Planner and Stephen Covey's books, FC is a recognized leader in performance improvement with what is likely the deepest and highest-quality catalog of content, validated by a history of high revenue retention and client satisfaction.

Bolstered by its strong competitive position in a niche market, FC is undergoing the equivalent of a license-to-SaaS business model transition as the company repositions client engagements from episodic transactions to continuous content delivery via subscriptions. Importantly, this transition increases flexibility of access to FC's high-quality content, improving its client and end-user experiences, with attendant benefits to the company's growth and margins over time. Thus far, FC is demonstrating strong client demand for its subscription services with revenue retention over 90% and growth in excess of 20%. This is currently driving a financial inflection and acceleration at the company, dispelling skepticism about the value proposition of, and risks associated with, transitioning to a subscription business model. FC is profitable, generates meaningful amounts of cash, has a net cash balance sheet position, and has negligible capital requirements. As a "build once, sell many times" content business, the company benefits from high incremental margins and will likely demonstrate significant operating leverage as its revenue grows, driving outsized growth in profits and cash flows.

We have a long history with similar business-to-business, enterprise-focused content companies, as well as license-to-subscription transitions. The presence of these two dynamics alongside evidence for the quality of FC's content, its enduring competitive position, and its highly attractive business model led us to initiate a position in the company at a cost basis of ~$39 as its share price declined during the second quarter. FC has continued to execute well, and its most recently reported results were no exception. Nonetheless, we believe that the stock remains attractively priced for a company that is capable of compounding EBITDA at a double-digit rate for years to come. We look forward to sharing more on FC's progress in the future.

Our second new position, **Upwork (UPWK),** operates the largest online, global marketplace for freelancers. Formed in 2014 through the merger of two leading online freelancer marketplaces, oDesk and Elance, UPWK has grown to facilitate over $3.5 billion of gross services volume for over 770,000 clients. Businesses use UPWK's marketplace to find qualified freelancers quickly and efficiently for a wide variety of tasks, providing cost savings and greater speed and flexibility in managing and staffing their projects. Freelancers use UPWK to post their availability, advertise their skills, and win new jobs. The

company supplements its offerings with tools and solutions that enable participants to manage their administrative workflows. As the largest freelancing marketplace by far, UPWK benefits from unmatched network effects that enhance its value proposition to both clients and freelancers, respectively, through a greater supply of qualified labor and a greater set of work opportunities. In addition, UPWK's focus on larger clients means that it often becomes embedded in corporate contingent labor processes, which necessitate a trusted marketplace partner to manage the associated regulatory requirements. By virtue of its scale and reputation, UPWK is strongly positioned, particularly among large enterprises where there remains a long runway to benefit from the secularly increasing prevalence of freelancing and to drive share gains from traditional staffing agencies.

The pandemic was a boon for UPWK thanks to the exigencies it created for remote work and supplemental labor. While these tailwinds have diminished as vaccines have emerged and as the world has reopened, UPWK has not given its gains back. More recently, UPWK has been negatively affected by the Russo-Ukrainian War, with a meaningful number of freelancers and projects dropped because of the company's decision to cease business in Russia and Belarus. This has had a near-term impact on reported results, though the company's competitive position and long-term opportunity remain unchanged with many displaced projects having been transitioned to other freelancers on UPWK's network. In addition, UPWK has invested significantly in product development and enterprise sales over the last three years. These initiatives should improve the company's ability to land enterprise customers and increase spend per client, and results to date have been promising in these regards. Despite a larger comparable base and headwinds from the war, UPWK has continued to grow revenue at rates in excess of 20%. While UPWK is not currently generating positive net income, the company is coming to the end of an investment cycle in its enterprise focus. This should allow the company to display meaningful operating leverage and profitability in the years to come.

We believe that UPWK has been caught in the seemingly indiscriminate growth company sell-off and has been penalized to an undue degree by concerns stemming from the war – both of which contradict the ongoing execution and results the company has achieved. These factors spurred our decision to establish a position in UPWK toward the end of the second quarter, which we supplemented with additional purchases in the third quarter as the company continued to report solid fundamental performance in contrast to a declining share price. We continue to believe that UPWK remains attractively priced for a company that should be much larger and highly profitable in a few years' time, and we look forward to sharing more on the company's progress.

Closing Comments

The third quarter of 2022 continued the Fund's drubbing in tandem with the broader market. As disappointing as recent share price declines have been, the fundamental performance of our holdings has generally remained resilient. While macroeconomic challenges and concerns continue to weigh on the market, they have not diminished or degraded the compelling qualitative drivers of long-term shareholder value present in our portfolio companies.

With the elements for long-term compounding still in place (and even enhanced by newly discounted market valuations), we remain committed to the principle that transitory concerns will ultimately give way to ongoing intrinsic value creation within the portfolio. We are energized by the opportunities we see. We are doing the hard work necessary to maintain differentiated insight, patience, and tenacity in the ownership of exceptional companies, with the expectation that our efforts will manifest in category-leading returns. With deep appreciation for your partnership and trust, we persist in these endeavors.

The Russell 2000 index is an unmanaged market capitalization weighted index of 2000 small company stocks of U.S. domiciled companies. The composition of the Russell 2000 Index is materially different than the Fund's holdings. The Index is not available for direct investment.

The Fund seeks to generate attractive returns over time but does not attempt to mirror a benchmark or index.

Opinions, forecasts, and discussions about investment strategies represent the author's views as of the date of this commentary and are subject to change without notice. References to specific securities, asset classes, and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as recommendations specific securities, asset classes, and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as recommendations.

RISKS

Investors in the Fund should be able to withstand short-term fluctuations in the equity markets in return for potentially higher returns over the long term. The value of portfolios changes every day and can be affected by changes in interest rates, general market conditions and other political, social and economic developments.

The Fund is "non-diversified" and may assume large positions in a small number of issuers which can increase the potential for greater price fluctuation.

Foreign investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards. Prices of emerging market securities can be significantly more volatile than the prices of securities in developed countries, and currency risk and political risks are accentuated in emerging markets.

Investing in small sized companies typically exhibit greater risk and higher volatility than larger, more established companies.

Asset allocation decisions, particularly large redemptions, made by an investor or an investment adviser whose discretionary clients make up a large percentage of the Fund's shareholders, may adversely impact remaining Fund shareholders.

For more complete information, visit www.bbhfunds.com for a prospectus. You should consider the fund's investment objectives, risks, charges and expenses carefully before you invest. Information about these and other important subjects is in the fund's prospectus, which you should read carefully before investing.

Shares of the Fund are distributed by ALPS Distributors, Inc. and is located at 1290 Broadway, Suite 1000, Denver, CO 80203.

Bares Capital Management, Inc. acts as the sub-adviser to the Fund.

Brown Brothers Harriman & Co. ("BBH"), a New York limited partnership, was founded in 1818 and provides investment advice to registered mutual funds through a separately identifiable department (the "SID"). The SID is registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940.

Not FDIC Insured **No Bank Guarantee** **May Lose Money**