# BBH Select Series - Mid Cap Fund

*Quarterly Fund Update / 3Q 2022*

### 3Q Highlights

- The Russell Midcap Index declined -3.44% in the third quarter of 2022 on a total return basis, while the BBH Select Series - Mid Cap Fund ("the Fund") increased 0.24%.
- Many companies reported second quarter results that reflected a greater negative impact from inflation, continued supply chain tightness, higher interest rates, and a stronger dollar.
- We believe the willingness to add to positions on market weakness, combined with the resilience of a company's business model and balance sheet, is an effective way to deliver attractive returns over a full economic cycle.

**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** | 0.24% | -25.73% | -16.37% | N/A | N/A | N/A | -11.86% |
| **Benchmark** | -3.44% | -24.27% | -19.39% | N/A | N/A | N/A | -13.80% |

Class I Inception: 05/24/2021
Class I: Net/Gross Expense Ratio (%) 0.90 / 2.46

* Returns are not annualized.

The Brown Brothers Harriman & Co., through a separately identifiable department ("Investment Advisor") has contractually agreed to limit the Total Annual Fund Operating Expenses excluding certain expenses to 0.90% through March 1, 2023. The Expense Limitation Agreement may only be terminated during its term with approval of the Fund's Board of Trustees.

***Performance data quotes 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 redeemed, may be worth more or less than the original cost. For performance current to the most recent month-end please call 1-800-625-5759.*** *Shares redeemed within 30 days of purchase are subject to a redemption fee of 2%.*

The Russell Midcap Index, the Fund's benchmark, is a market capitalization-weighted index comprised of approximately 800 publicly traded U.S. companies with market caps of between $1 and $66 billion. The index is not available for direct investment. The composition of the index is materially different than the Fund's holdings.

Sources: BBH & Co. and Russell

The Russell Midcap Index ("the Index") declined -3.44% in the third quarter of 2022 on a total return basis, while the BBH Select Series - Mid Cap Fund ("the Fund") increased 0.24%. Since its inception on May 24, 2021, the Fund has declined by an average annual total return of-11.86% compared to a decline of -13.80% for the Index.

During the third quarter, markets initially rallied as investors expected the pace of interest rate increases to slow. Those hopes were dashed after Federal Reserve Chairman Jerome Powell made clear in Jackson Hole, WY that he felt the fight against inflation was far from over. Many companies reported second quarter results that reflected a greater negative impact from inflation, continued supply chain tightness, higher interest rates, and a stronger dollar. Most of our companies still delivered quarterly results ahead of market consensus, but forward guidance was notably more muted. The Russell Midcap Index extended its decline and is now down -24.3% year-to-date.

Despite a significant decrease in the price of oil, Energy[1] was the Fund's best performing sector in the quarter and the only positive sector, up 1.2%. The Industrials and Information Technology sectors performed relatively well and were mostly unchanged from the prior quarter, with Industrials flat and Technology down -1.0%. Over 40% of the portfolio is categorized as Industrials or Information Technology, with the Fund's holdings in those sectors outperforming those of the Index. For example, **Advanced Drainage Systems, Arista Networks, Aspen Technology,** and **Shift4 Payments** were all up at least 20% during the quarter.

### Portfolio Attribution

For the quarter, our largest positive drivers relative to the benchmark were Advanced Drainage Systems ("Advanced Drainage") and Shift4 Payments ("Shift4").

[1] The Fund uses GICS sector classifications for evaluating sector weights and performance.

Advanced Drainage returned 38.2% and ended the third quarter with a weight of 5.4% after trimming the holding near its recent highs in August. We had previously added to the position on weakness in both the first and second quarter. Advanced Drainage is the leading manufacturer of thermoplastic pipe and allied products for stormwater and wastewater management. During the quarter, the company reported results for the first quarter of fiscal year 2023 that exceeded consensus on both the top and bottom lines while raising fiscal year 2023 guidance well above consensus. It demonstrated strong pricing power at both legacy business lines and Infiltrator, reaping the full benefit of previously announced price increases even as materials costs begin to moderate. It also experienced strong volume growth in Allied Products, Infiltrator, and the residential end market, driven by continued share gains. Orders and volumes were positive in the quarter in all end markets except agriculture and retail. Project identification, quoting, and order activity remained positive in horizontal, low-rise non-residential projects. While housing growth has slowed from previous levels, Advanced Drainage expects to see growth for the remainder of the year as it expands capacity to meet demand and work down its order backlog. We expect that thermoplastics will continue to take market share from traditional materials, such as reinforced concrete and steel, due to decisive cost and performance advantages.

Shift4 returned 34.9% and ended the third quarter with a weight of 4.1%. We also added to the Shift4 position on weakness in the first and second quarters. Shift4 is an integrated payments processor specializing in the hospitality vertical, including restaurants, lodging, and leisure. Shift4 is growing rapidly as it adds new merchants, expands into new verticals, and converts existing gateway customers to its end-to-end payment platform. The company reported second quarter results that were ahead of consensus and raised guidance, as it continues to win market share and executes well on management's growth initiatives. Shift4 is rolling out a new software and hardware technology for point-of-sale, which has been well received. In July, monthly end-to-end volumes from new verticals such as stadiums, gaming, non-profits, and emerging technology tripled compared to the end of the first quarter. As revenues accelerate and margins expand, free cash flow conversion is also increasing.

| Holdings<br>As of September 30, 2022 | |
|---|---|
| AMN Healthcare Services Inc | 6.2% |
| Watsco Inc | 6.2% |
| Charles River Laboratories International Inc | 6.1% |
| Brown & Brown Inc | 5.8% |
| Crown Holdings Inc | 5.5% |
| Entegris Inc | 5.5% |
| Advanced Drainage Systems Inc | 5.4% |
| NVR Inc | 4.5% |
| LPL Financial Holdings Inc | 4.3% |
| Arista Networks Inc | 4.3% |
| Shift4 Payments Inc (Class A) | 4.1% |
| Guidewire Software Inc | 4.0% |
| Vulcan Materials Co | 4.0% |
| Aspen Technology Inc | 3.8% |
| Take-Two Interactive Software Inc | 3.7% |
| SVB Financial Group | 3.7% |
| HEICO Corp (Class A) | 3.6% |
| Wyndham Hotels & Resorts Inc | 3.1% |
| Mercury Systems Inc | 2.7% |
| Archaea Energy Inc | 2.5% |
| Graco Inc | 2.1% |
| First Advantage Corp | 1.8% |
| Bright Horizons Family Solutions Inc | 1.5% |
| AptarGroup Inc | 1.5% |
| Toro Co | 1.4% |
| Bruker Corp | 1.2% |
| Cash & Cash Equivalents | 1.7% |

Holdings are subject to change.

The Fund's largest performance detractors relative to the benchmark in the third quarter were **Mercury Systems** ("Mercury") and **Bright Horizons Family Solutions** ("Bright Horizons").

Mercury declined by -36.9% during the third quarter, ending with a weight of 2.7%. Mercury is a unique producer of electronic components and systems to the defense industry, focused on highly sophisticated processing and electronic warfare subsystems for major weapons programs. Cash flow generation at Mercury has been impacted by continued supply chain challenges plaguing the defense industry. These supply chain issues remain pervasive amid ongoing struggles to procure materials and recruit labor with security clearances. Similar to other defense industry companies, as well as other technology companies, Mercury continues to experience decommitment from suppliers, long lead times for semiconductors, and program delays. This has impacted Mercury's ability to meet continued strong demand reflected in the growth of its bookings and backlog. In addition, these delays caused the stockpiling of additional inventory and delayed progress payment receipts. We remain confident that Mercury will eventually be able to meet this essential, non-discretionary demand, and in the meantime will benefit from increased visibility to a multi-year period of growth for the defense industry.

Bright Horizons declined by -31.8% during the quarter, ending with a weight of 1.5%. Bright Horizons is the leading provider of employer-based childcare centers as well as backup care and education advisory solutions, serving 1,350 clients including 200 of the Fortune 500. While COVID-19 represented an unprecedented disruption to the business, our thesis remains that enrollment will gradually recover, and Bright Horizons will emerge with both a stronger competitive position and increased demand given the well-publicized challenges of providing childcare. However, labor has been a gating constraint to demand in many markets, forcing Bright Horizons to spend more to attract talent. Accordingly, management's expectation for full enrollment recovery has been pushed out into 2023. While the company can pass on higher labor costs to its customers, there is a lag in how quickly it can do so given the seasonality of enrollment. We remain positive on Bright Horizons and expect that utilization will continue to improve as labor markets ease.

## Portfolio Changes

We initiated one new position during the third quarter in **Archaea Energy ("Archaea")**.

Archaea is the largest independent U.S. developer and operator of landfill renewable natural gas ("RNG") facilities that transform primarily methane gas emissions into pipeline quality RNG as an alternative to natural gas. Archaea captures naturally occurring emissions from organic waste decomposition, generating revenue from the sale of the processed gas while also preventing methane from entering the atmosphere, where it is 30 times more potent than carbon dioxide. Archaea is a technology leader with core expertise in gas processing challenges at landfills, resulting in industry leading project timelines, gas capture rates, and lower operating expenses. The company has a five-year backlog of high-return landfill projects secured by gas rights agreements with landfill owners for an average life of 32 years. Archaea has also secured offtake with 10-20 year fixed-price customer purchase agreements. These customers are mostly utilities who increasingly need to meet renewable targets and pay a premium for Archaea's RNG with additional inflation escalators. Archaea seeks long-term, fixed price contracts for 70% of production to provide a minimum 10%+ internal rate of return ("IRR") on projects, although realized IRRs are more typically 25%-40%. Archaea will also benefit from the recent Inflation Reduction Act legislation which will provide tax credits for Archaea's capital expenditures and potentially open new markets in carbon capture and hydrogen production. Accordingly, we believe Archaea is poised to deliver a very attractive return over our investment horizon as it executes on its backlog secured by long-term contracts.

During the quarter we trimmed holdings in **AMN Healthcare Services,** Advance Drainage, and Aspen Technology. We had recently added to these holdings in the second quarter, and while the trims were relatively small, it is an important part of our process to ensure that each company's portfolio weight is consistent with the perceived opportunity and valuation in times of high volatility. We also trimmed **Bruker Corp** and **AptarGroup** to manage our risk and exposure to European end markets, where we believe the potential for a natural gas shortage and other economic risks have not been fully incorporated into companies with significant sales or manufacturing exposure to the region.

In addition to Archaea, proceeds from the above trims were added to our positions in **SVB Financial, Charles River Laboratories, Entegris,** and **Guidewire Software.** These are all faster growing companies that experienced significant weakness during the quarter and provided us the opportunity to increase our holdings at what we believe are highly attractive valuations. With exposure to end markets such as venture capital, biotechnology, and semiconductors, sentiment has deteriorated much faster than the fundamental performance. Given that these companies have strong competitive positions providing essential services to structurally growing end markets, we believe they will prove to be more resilient than many investors are currently forecasting. Our turnover remains well within our target range at 18% year-to-date and 23% over the last 12 months.

## Conclusion

At the end of the third quarter 2022, we held positions in 26 companies with 54% of assets in the 10 largest holdings. As of September 30th, the Fund was trading at 67% of our underlying intrinsic value[2] estimates on a weighted-average basis. We ended the quarter with a cash position of 1.7%.

Markets have been increasingly volatile throughout the year, with 100-day historical volatility rising from 15.4% at year-end 2021 to 26.7% at September end 2022. While volatility is important to monitor, we define risk as the potential for permanent loss of capital on any single investment. We seek to minimize that risk via strict adherence to our investment criteria and investment process, which require a clear margin of safety[3] from both a business quality and valuation perspective. The financial factors key to our stock selection process include first and foremost a strong balance sheet. We look for strong liquidity and prefer low leverage ratios. This lowers the likelihood of financial distress and facilitates opportunistic acquisitions, investments, and/or share repurchases.

Accordingly, our portfolio companies have lower leverage on average relative to the Russell Midcap Index, and we expect our companies with higher leverage to be able to promptly repay debt. As part of our financial analysis, we also expect our companies to be conservative, honest, and transparent in their accounting practices. We pay close attention to where a company's accounting statements deviate from generally accepted norms, or where there is an over-emphasis on adjusted numbers. Lastly, we do not sell borrowed securities or use portfolio leverage which could expose the portfolio

[2] The weighted average percentage of intrinsic value represents the market value of the portfolio securities as a percentage of what BBH estimates to be the present value of the cash that the portfolio's businesses can generate and distribute to shareholders over the businesses' remaining life.

[3] A margin of safety exists when we believe there is a discount to intrinsic value at the time of purchase. Intrinsic value represents what we believe to be the value of a security based on our analysis of both tangible and intangible factors.

to asymmetrical losses. We believe the willingness to add to positions on market weakness, combined with the resilience of a company's business model and balance sheet, is an effective way to deliver attractive returns over a full economic cycle.

Thank you for your interest in the BBH Select Series – Mid Cap Fund. Please reach out if you have any questions.

Sincerely,

*Timothy F. Harris*
*Fund Manager*

| Share Class Overview As of September 30, 2022 | | | | |
|---|---|---|---|---|
| | Ticker | Inception Date | Total Net Assets (mil) | NAV |
| **Class I** | BBMIX | 5/24/2021 | $11.5 | $8.43 |

| Equity Weighting As of September 30, 2022 | |
|---|---|
| Common Stock | 98.3% |
| Cash and Cash Equivalents | 1.7% |
| **Total** | **100.0%** |

| Fund Facts As of September 30, 2022 | |
|---|---|
| Number of Securities Held | 26 |
| Average P/E | 21.5 |
| Average Market Cap (bil) | $11.5 |
| Turnover (Rolling 12-Months) | 22.53% |

Exclude cash equivalents

| Sector Weighting As of September 30, 2022 | |
|---|---|
| Communication Services | 3.8% |
| Consumer Discretionary | 9.2% |
| Consumer Staples | 0.0% |
| Energy | 2.6% |
| Financials | 14.1% |
| Health Care | 13.7% |
| Industrials | 23.5% |
| Information Technology | 22.0% |
| Materials | 11.1% |
| Real Estate | 0.0% |
| Utilities | 0.0% |
| **Total** | **100.0%** |

Reported as a percentage of portfolio securities, excluding Cash and Cash Equivalents.

| Top 10 Companies As of September 30, 2022 | |
|---|---|
| AMN Healthcare Services Inc | 6.2% |
| Watsco Inc | 6.2% |
| Charles River Laboratories International Inc | 6.1% |
| Brown & Brown Inc | 5.8% |
| Crown Holdings Inc | 5.5% |
| Entegris Inc | 5.5% |
| Advanced Drainage Systems Inc | 5.4% |
| NVR Inc | 4.5% |
| LPL Financial Holdings Inc | 4.3% |
| Arista Networks Inc | 4.3% |
| **Total** | **53.8%** |

Reported as a percentage of total portfolio.

There is no assurance the Fund will achieve its investment objective.

Portfolio holdings and characteristics are subject to change. Totals may not sum due to rounding.

Price/Earnings (P/E) ratio is a company's current share price divided by earnings per-share. Turnover ratio is the rate of trading in a portfolio; higher values imply more frequent trading.

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.

Purchase and sale information provided should not be considered as a recommendation to purchase or sell a particular security and that there is no assurance, as of the date of publication, that the securities purchased remain in a fund's portfolio or that securities sold have not been repurchased.

## RISKS

Investors in the Fund should be able to withstand short-term fluctuations in the equity markets and fixed income 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.

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

Securities issued in IPOs have no trading history, and information about the companies may be available for very limited periods. In addition, the prices of securities sold in IPOs may be highly volatile or may decline shortly after the IPO. Asset allocation decisions by a large investor or an investment adviser, particularly large redemptions, 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.

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**