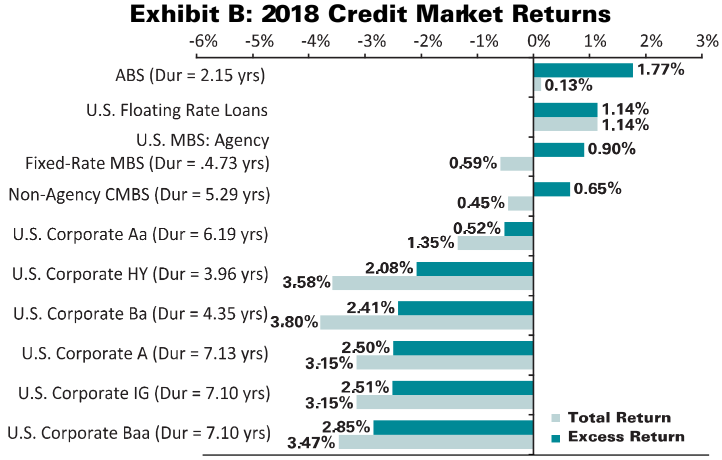
BBH Limited Duration Fund

Quarterly Fund Update / 4Q 2018

Imagine it is the end of 2016[1], and a forecaster predicts that equities will return nearly 8% per annum for the next two years, while bond indexes will return 1.5%-3.5%, ranked roughly by credit quality. She also predicts that the 10-year U.S. Treasury yield will rise 24 basis points[2] (bps) by the end of 2018, credit spreads will back up to levels consistent with the summer of 2016, and oil will end the two years roughly flat. You might have thought this a boring forecast. Unlike most real-life pundits, our imaginary forecaster would have been correct, yet her prediction might have missed the most important feature of markets in 2018: the journey was a lot more interesting than the destination (Exhibit A on the next page).

The S&P 500 Index reached a peak annualized return (measured from December 31, 2016) of over 18% before its 13% drop in the fourth quarter. Within the fixed income universe (Exhibit B), bank loans scrubbed off most of their class-leading returns in the fourth quarter, but still finished the year with a positive return. Along with loans, asset-backed securities (ABS), an area of significant emphasis in our portfolios, also outperformed similar duration Treasuries (i.e. produced positive excess returns). Other credit sectors lagged, making this the worst year for credit since 2011. Treasury rates, which had been up for the year by 0.91% in the two-year note and 0.66% in the 10-year note at the end of September, retraced their steps in December to up 0.60% and 0.28%, respectively. The Treasury yield curve (Exhibit C on the next page) inverted from 1-6 years. While the year-end levels themselves aren't astonishing, markets ended the year with massive bearish momentum, and volatility has carried into the new year.

Exhibit B: 2018 Credit Market Returns



Past performance is no guarantee of future results
Data reported quarter-to-date as of 4Q 2018
HY = High Yield, MBS = Mortgage-Backed Securities, CMBS = Commercial Mortgage-Backed Securities, IG = Investment Grade, DUR = Duration
Sources: Credit Suisse, Bloomberg, and BBH Analysis

Performance
As of December 31, 2018

	Total Returns		Average Annual Total Returns				
	3 Mo.*	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception[3]
Class I[1]	0.36%	2.07%	2.07%	2.45%	1.72%	2.44%	3.92%
Class N[2]	0.33%	1.99%	1.99%	2.31%	1.54%	2.27%	3.75%
Benchmark	1.31%	1.56%	1.56%	0.95%	0.81%	0.96%	2.71%

Class I Inception: 12/03/2002
Class N Inception: 12/22/2000

Class I: Total Expense Ratio (%) 0.28
Class N: Total Expense Ratio (%) 0.67

* Returns are not annualized.

Effective March 24, 2017, the Investment Adviser has voluntarily agreed to limit the Annual Fund Operating Expenses of Class N to 0.35%. This is a voluntary waiver that can be changed at any time at the sole discretion of the Investment Adviser.

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 performance current to the most recent month-end please call 1-800-625-5759.

[1] The Class I shares commenced operations on December 3, 2002. Prior to December 3, 2002, performance reflects performance of the Class N shares adjusted to assume that all charges, expenses and fees were deducted. Performance prior to December 22, 2000 is that of the BBH Broad Market Fixed Income Portfolio adjusted to assume that all charges, expenses and fees of the Fund and the Portfolio which are presently in effect were deducted during such periods, as permitted by applicable SEC staff interpretations. [2] The Class N shares commenced operations on December 22, 2000. Performance prior to December 22, 2000 is that of the BBH Broad Market Fixed Income Portfolio adjusted to assume that all charges, expenses and fees of the Fund and the Portfolio which are presently in effect were deducted during such periods, as permitted by applicable SEC staff interpretations. [3] "Inception Date" (7/20/2000) is the inception date of the BBH Broad Market Fixed Income Portfolio.

The Bloomberg Barclays U.S. 1-3 Year Treasury Bond Index is an unmanaged index of fixed rate obligations of the U.S. Treasury with maturities ranging from 1 to 3 years. The index is not available for direct investment.

Sources: BBH & Co. and Bloomberg

Valuations coming off all-time tights and renewed new purchase activity in Q4

We review 2018 not just to repeat our skepticism of past market forecasts. It is a good reminder for us to keep looking to valuation changes over time, not market forecasts or sentiment, as our guide to investing. What really matters to us is the number of durable opportunities and the intensity of their value. Volatility produces new opportunities and deprives us of others.

[1] Why two years ago? Mostly because it isn't so short term as one year, and marks a time when most agreed the economy was doing well in aggregate, but also because it is near the beginning of both the Trump administration and when the Fed tightening program got underway in earnest.

[2] A unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

Exhibit A: A Volatile Fourth Quarter

Total Returns	Annualized: 2 Years Ended 12/31/2018	3Q 2018 YTD	4Q 2018	1 Year 2018
S&P 500 Index	7.91%	10.56%	-13.52%	-4.39%
Bloomberg Barclays US High Yield Index	2.60%	2.40%	-4.53%	-2.08%
Credit Suisse Leveraged Loan Total Return	2.68%	1.93%	-3.08%	1.14%
Bloomberg Barclays US Corporate Index	1.86%	-2.33%	-0.18%	-2.51%
ICE BoA ML ABS & CMBS Index	2.27%	0.55%	1.17%	1.93%
Bloomberg Barclays US Treasury Index	1.58%	-1.67%	2.57%	0.86%

Index Levels	12/31/2016	9/30/2018	12/31/2018	Last Previous Date at Year-End Level
S&P 500 Index	2,219	2,885	2,471	9/27/2017
Bloomberg Barclays US Corporate OAS	1.22%	1.06%	1.53%	7/7/2016
Bloomberg Barclays High Yield OAS	3.98%	3.16%	5.26%	8/5/2016
Bloomberg Barclays CMBS Index OAS	0.75%	0.60%	0.86%	8/3/2016
2-Year Treasury Yield	1.18%	2.82%	2.48%	7/9/2018
10-Year Treasury Yield	2.44%	3.06%	2.68%	1/26/2018
Brent Crude Oil - 1st delivery	56.20	82.68	54.14	9/12/2017

OAS = option-adjusted spread
Sources: Intercontinental Exchange Bank of America (ICE BoA) and BBH Analysis

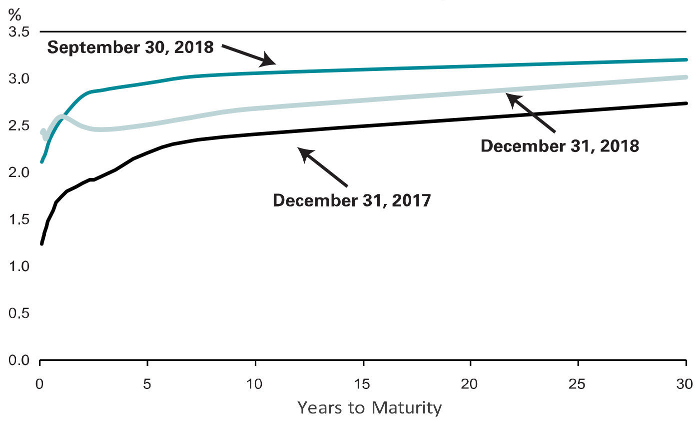
We became increasingly active in response to the fourth quarter's market volatility, executing about 60 different buys in the Fund. We took advantage of good values at the short end of bank issuance with ANZ Bank (3.77% yield to maturity [YTM]), BB&T (3.78% YTM), Svenska Handelsbanken (3.86% YTM), and US Bank (3.47% YTM). We also picked up newly issued single-A rated bonds of Dow Dupont (4.21% YTM) and in the secondary market Centene (5.62% YTM) maturing in 2023 and 2021 respectively.

Fourth quarter ABS issuance was $48 billion, reaching a full year total of $229 billion, the highest issuance since 2007. Familiar obligors continued to offer attractive yields at short durations and high credit quality. We added triple-A rated tranches in Nextgear (3.71% YTM) and Cazenovia Creek (3.88% YTM), and double-A rated tranches in Mariner (4.24% YTM) and Nationstar (3.93% YTM). Single-A rated Elm Trust came at an attractive 4.61% yield and triple-B Oportun Funding at a yield of 4.76%. Newly added ABS obligors include triple-A rated servicer advance Finance of America (3.38%YTM) and single-A venture lender Hercules Capital (4.61%YTM).

Still avoiding Mortgage-Backed Securities

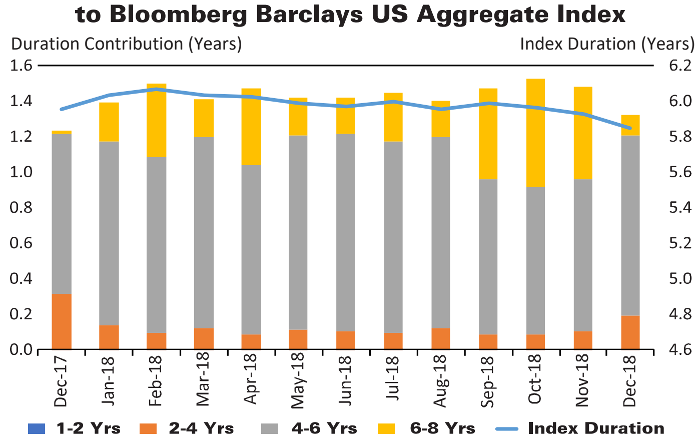
We remain unimpressed with valuations in Mortgage-Backed Securities (MBS). They offer little compensation for the rate risk embedded within them and have a clearly negative supply dynamic with the end of quantitative easing. Furthermore, as interest rates have been volatile, MBS change duration. For example, mortgages contributed nearly all of the +/- 0.5 year fluctuations to the Bloomberg Barclays US Aggregate Index in 2018 (Exhibit D). This volatility, in turn, can induce a lot of trading, which is expensive in volatile markets, and impairs available liquidity for credit opportunities. For all these reasons, we'd like to be paid much more to own MBS.

Exhibit C: U.S. Treasury Curve



Data reported quarterly from December 31, 2017 and December 31, 2018
Sources: Bloomberg and BBH Analysis

Exhibit D: Duration Contribution of MBS to Bloomberg Barclays US Aggregate Index



Data reported monthly from December 1, 2017 to December 1, 2018
Sources: ICE BoA ML and BBH Analysis

Why the bearish sentiment?

In addition to the accelerating bearish tone in credit at the very end of the year, the Treasury yield curve sagged and inverted from 1-6 years (as seen in Exhibit C). As we start 2019, the market-implied path for Federal Reserve (Fed) policy suggests that not only have rate hikes ended, but also greater than 50% probability of *a rate cut* by January 2020. While credit is somewhat gloomy, Treasuries are pricing in a recession.

We recently read a research piece from JPMorgan[3] reaching the conclusion that the pricing of stocks, IG Credit, Treasuries, and base metals suggested a 50% or greater odds of recession.

While we do not rely on forecasts in our investment process, we do have some perspective on today's gloomy financial markets. It seems to us that markets are doing what they have always done, which is to extrapolate the most recent news long into an unknown future. We were skeptical of the unbridled optimism in the stock and credit markets in 2017, and we are similarly skeptical of today's pessimism.

In 2017 and early 2018 we thought markets were underestimating the threats from:

- erratic trade actions
- increasing global debt
- credit losses from an overheated direct-lending market in the US
- debt reckoning in China/China slowdown
- rapid growth of US student and automobile debt

These things remain existential threats that have not yet materialized, although perhaps markets are putting greater odds on one or more of them.

Economic data remains largely positive

As far as the U.S. is concerned, economic data still seems to be telling a positive story. Two aggregate indexes of economic activity and growth that give a big picture of what economic data may be telling us are the Chicago Fed National Activity Index and the Conference Board Index of Leading Indicators. Neither of these indicators indicates recession, and both are at the favorable end of their range in the post-crisis era.

Monetary policy is not unreasonably restrictive

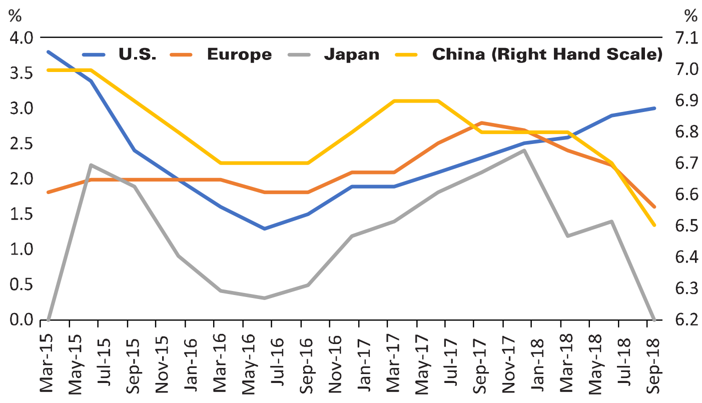
In addition to market implied rates, we hear increasing complaints that the Fed needs to slow the speed of future interest rates increases. We suspect that some of the complainers may have forgotten that the Fed's 'dual mandate' does not include maximizing corporate earnings or stock market valuations. Rather, the Fed's job is to contain inflation and unemployment. One yardstick for the appropriateness of monetary policy is the "Taylor Rule", the most famous of several reduced form rules for setting monetary policy given various employment and inflation indicators. If we set the non-inflation producing unemployment threshold (the "NAIRU") to a low three percent, the Taylor Model suggests that monetary policy is still too easy - and the Fed should raise rates more than another half percentage point[4]. While the Taylor rule is only one perspective, it certainly doesn't suggest the Fed has tightened too much, with real rates around zero today. Perhaps, once again, it isn't the level of rates, but the recent rapid change that has investors spooked.

So *what* has changed? Global growth and a U.S. government shutdown

Two important elements of our investing environment did change in 2018: The end of (a brief period of) global synchronized growth, and the U.S. government shutdown.

Outside of the U.S., growth certainly does appear to be slowing over the course of 2018, most notably in Japan, although every other zone is still positive (Exhibit E). The U.S. stands out as accelerating, at least up until now. China is the area of greatest concern, given the combination of tariff uncertainties and slowing growth. As we start 2019, Apple has already warned of decreased sales, primarily out of China. China's growth drivers are also shifting from investment to consumption. In aggregate this may not be a negative, but it should cause some dramatic changes in industries selling into China. While it may get worse, this risk from China is hardly new, and shouldn't cast a huge pall over the markets.

Exhibit E: Year–Over–Year GDP Growth



Data reported quarterly from March 31, 2015 to September 30, 2018
Sources: Bloomberg and BBH Analysis

[3] JP Morgan, "Flows and Liquidity", N. Panigirtzoglou, M. Inkinen, J. Vakharia, N. Poddar January 4, 2019.

[4] Calculated on Bloomberg using the function "TAYL".

We admit to becoming jaded about U.S. government shutdowns. President Trump sought this confrontation over immigration policies, motivated primarily by fulfilling a campaign promise. This won't be a large economic event unless it stretches out for months. We remind our readers that the vast majority of government spending – defense, entitlements, and a variety of other essential functions – continues on schedule. This shutdown stems from political posturing, and a political compromise should emerge to resolve the matter.

As we start 2019, we do not anticipate systemic danger from these discussed market changes, given the much stronger and less leveraged financial system. What is evident to us is the substantial disagreement between U.S. economic indicators and market sentiment as reflected in market trends. Although the fourth quarter of 2018 was a volatile period, we welcome the more appropriate credit pricing heading into the new year.

Some things never change

From our perspective, bearish momentum is feeding on itself and markets are beginning to overshoot. This is what markets always do. What we at BBH always do is spend every working day looking for the next durable opportunity that is priced to outperform, not over the next month, but over the next few years.

Happy New Year to all of you and thank you for investing with us.

Sincerely,

Andrew P. Hofer
Fund Co-Manager

Neil Hohmann, PhD
Fund Co-Manager

Share Class Overview As of December 31, 2018	Overall Morningstar Rating ™ *	Ticker	CUSIP	Inception Date	Total Net Assets (mil)	NAV	30-Day SEC Yield** (Subsidized)	30-Day SEC Yield** (Unsubsidized)
Class I	★★★★★	BBBIX	05528X851	12/03/2002	$5,828.3	$10.12	2.74%	2.74%
Class N	★★★★★	BBBMX	05528X802	12/22/2000	$322.6	$10.12	2.67%	2.52%

* Star ratings are based on risk-adjusted return. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3-; 5- and 10-year Morningstar Rating metrics. There are 145 funds in the Ultrashort Bond category as of 12/31/18.

** SEC yield is a calculation based on a 30-day period and is computed by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the reported period.

Effective March 24, 2017, the Investment Adviser has voluntarily agreed to limit the annual fund operating expenses of Class N to 0.35%. This is a voluntary waiver that can be changed at any time at the sole discretion of the Investment Advisers.

Credit Quality As of December 31, 2018	
Cash and Cash Equivalents	5.3%
AAA	35.6%
AA	13.6%
A	25.3%
BBB	16.0%
BB	3.8%
B or Lower	0.2%
Not Rated	0.4%
Total	**100.0%**

Top 10 Credits As of December 31, 2018	
World Financial Network Credit Card Master Trust	2.0%
PFS Financing Corp	1.8%
Mariner Finance Issuance Trust	1.7%
New Jersey Turnpike Authority	1.6%
Credit Acceptance Auto Loan Trust	1.5%
Trafigura Securitisation Finance PLC	1.4%
Dell Inc	1.4%
Australia & New Zealand Banking Group Ltd	1.3%
Business Jets Securities, LLC	1.3%
Spirit Master Funding, LLC	1.2%
Total	**15.2%**

Reported as a percentage of total portfolio.

Sector Distribution As of December 31, 2018	
Corporate Securities	29.2%
Asset-Backed Securities	47.4%
Commercial Mortgage-Backed Securities	5.0%
Municipal Securities	1.9%
Agency Mortgage-Backed Securities	0.3%
Trust Preferred	0.0%
Loans	10.9%
Cash and Cash Equivalents	5.3%
Total	**100.0%**

Fund Facts As of December 31, 2018	
Number of Holdings	290
Effective Duration (years)	0.88
Weighted Average Life (years)	1.96
YTM	3.69%

Holdings are subject to change. Totals may not sum due to rounding.

Credit Quality letter ratings are provided by Standard and Poor's, Moody's and Fitch and are presented as the higher of the three ratings. When a security is not rated by Standard & Poor's, Moody's or Fitch, the highest credit ratings from DBRS and Kroll may be used. Credit ratings reflect the credit quality of the underlying issues in the portfolio and not of the portfolio itself. Issues with credit ratings of BBB or better are considered to be investment grade, with adequate capacity to meet financial commitments. Issues with credit ratings below BBB are considered speculative in nature and are vulnerable to the possibility of issuer failure or business interruption.

Effective duration is a measure of the portfolio’s return sensitivity to changes in interest rates.

Weighted Average Life of securities excludes US Treasury futures positions.

Yield to Maturity is the rate of return the portfolio would achieve if all purchased bonds and derivatives were held to maturity, assuming all coupon and principal payments are received as scheduled and reinvested at the same yield to maturity. This figure is subject to change and is not meant to represent the yield earned by any particular security

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RISKS

The value of some bonds including asset-backed and mortgage-backed securities may be sensitive to changes in prevailing interest rates that can cause a decline in their prices. Mortgage related securities are subject to prepayment and extension risk. The Fund also invests in derivative instruments, investments whose values depend on the performance of the underlying security, assets, interest rate, index or currency and entail potentially higher volatility and risk of loss compared to traditional stock or bond investments.

For more complete information, visit www.bbhfunds.com for a current Fund 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 1100, Denver, CO 80203.

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

BBH Fund Information Service: (800) 625-5759