BBH Intermediate Municipal Bond Fund

Quarterly Fund Update / 4Q 2018

BROWN BROTHERS HARRIMAN

Is There An Echo Here?

BBH Intermediate Municipal Bond Fund Class I ("the Fund") had a total return of 1.79% for the fourth quarter, compared to the return of 1.71% for the benchmark Bloomberg Barclays 1-15 Year Municipal Index. For 2018 as a whole, the Fund had a total return of 1.84%, compared to a 1.58% return for the benchmark.

For much of 2018, we have bemoaned the rock-solid stability of the municipal market. In the face of tax reform-induced uncertainties, declining creditor protections, and a Federal Reserve (Fed) marching towards policy normalization, market valuations reflected nary a concern. In fact, from February through August, municipal market volatility reached its lowest point in the 30+ years for which we have data. As the fourth quarter commenced, however, overall financial market conditions changed so dramatically that we even thought we heard echoes of the Financial Crisis.

- S&P 500 down 14%
- NASDAQ down 17%
- Oil down 38%
- High Yield spreads 200 basis points[1] (bps) wider
- TIPS market-implied inflation down 45 bps
- U.S. Treasury Secretary Mnuchin provides public assurances that the largest U.S. banks are fine

During periods of turmoil, we are often asked, "What is the market saying?" While we can usually derive a narrative consistent with the price movements, there is no way to know for certain. However, our experience has taught us that market prices are far more volatile than underlying fundamentals. When broad classes of securities swing wildly, the moves tend to be exaggerated. *Short-term* market volatility generates opportunities to find *long-term* values for our clients. In our evaluation of individual investments, we are mindful of the broader environment, even if it is not of primary importance. The combination of declining equity and commodity prices, widening credit spreads, and declining inflation expectations paint a gloomy economic picture – or worse. Our challenge is for every credit we own to withstand tough times and still offer attractive yields.

U.S. Treasuries benefited the most from the fourth quarter's investor angst, generating a return of 2.6%. The municipal market returned 1.7%, after nine months of near-zero returns. During the middle of the fourth quarter, the muni market generated positive returns for a record 21 consecutive business days – not exactly a random walk down Wall Street. For the quarter, triple-A rated 5-, 10-, and 30-year maturity yields fell 15 to 30 basis points, ending the year at 1.94%, 2.28%, and 3.02%, respectively. The fourth quarter rally offset almost half of the sell-off prior to October 2018. For the year, municipal returns beat those of all other major fixed income sectors.

Performance
As of December 31, 2018

	Total Returns		Average Annual Total Returns		
	3 Mo.*	YTD	1 Yr.	3 Yr.	Since Inception
Class I	1.79%	1.84%	1.84%	3.04%	3.47%
Class N	1.65%	1.50%	1.50%	2.85%	3.32%
Benchmark	1.71%	1.58%	1.58%	1.96%	2.68%

Class I Inception: 04/01/2014
Class N Inception: 04/01/2014

Class I: Net/Gross Expense Ratio (%) 0.50 / 0.69
Class N: Net/Gross Expense Ratio (%) 0.65 / 1.05

* Returns are not annualized.

The Investment Adviser has contractually agreed to limit the Total Annual Fund Operating Expenses to 0.65% for Class N shares and 0.50% for Class N shares through March 1, 2019. The Expense Limitation Agreement may only be terminated during its term with approval of the Fund's Board of Trustees (the "Board").

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. *Fund shares redeemed within 30 days of purchase are subject to a redemption fee of 1.00%.*

The Bloomberg Barclays 1-15 Year Blend (1-17) Muni Index is a component of the Barclays Municipal Bond index, including bonds with maturity dates between one and 17 years. The Bloomberg Barclays Municipal Bond Index is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year. The index is not available for direct investment.

Sources: BBH & Co. and Bloomberg

2018 Fixed Income Sector Returns

Municipals	1.3%
Securitized (ABS/CMBS)	1.0%
Mortgages	1.0%
U.S. Treasuries	0.9%
Agencies	0.3%
High Yield Corporates	-2.1%
Investment Grade Corporates	-2.5%

ABS = Asset-Backed Securities,
CMBS = Commercial Mortgage-Backed Securities
Sources: Bloomberg and BBH Analysis

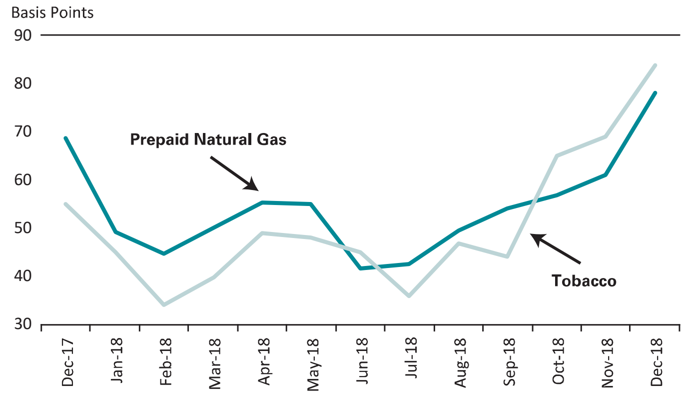
[1] A unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

We are happy to report that the Fund kept pace with the market in the late-year rally and beat its benchmark for the year. During the quarter, the Fund's last major Auction Rate Security position, backed by Westar Energy, was refunded at par. When we started purchasing these securities for client portfolios in 2011, we did not know when their value would materialize. We did know that they offered meaningful return potential, particularly as the Fed normalized monetary policy. This return potential consisted of two parts: first from higher income as their coupons reset at a multiple of a short-term index; and second, from price appreciation as the probability of par-priced redemptions increased as coupon rates went up. This is just what happened. Our auction rate holdings have generated significant value in the Fund over the past few years.

Zero-coupon school district debt held in the Fund also performed very well. Most of these schools are located in California and Oregon. Municipal investors continue to underappreciate zero-coupon bonds, preferring semi-annual cash coupon payments instead. When paired with our floating-rate bonds, our zero's form an effective bridge over expensive one- to three-year debt. For the quarter, this yield curve positioning benefited performance as short maturities lagged relative to 5- to 10-year debt.

Lastly, over the past several quarters we have written about the Fund's rising reserves. As certain credit-sensitive sectors such as tobacco, prepaid natural gas, and airports underperformed during the quarter, our relative results benefited. More importantly, we went shopping. We added to our position in 8-year Railsplitter Tobacco Settlement Authority at spreads of 80 bps, over 20 bps wider than bonds were trading throughout the summer. Our Railsplitters are strong credits, backed by master settlement agreement payments made by any entities selling cigarettes and other tobacco products within the U.S. Our bonds can withstand 15% to 20% annual declines in cigarette shipments, the primary factor behind our pledged revenues. Earlier in the year, New Jersey and California issued billions of tobacco bonds with less than half of the protection of our bonds. We viewed the voracious appetite of the market for these deals with concern. Weak structures and inadequate compensation often lead to poor ownership experiences.

Representative Tobacco and Prepaid Natural Gas 10-Year Spreads



Data reported daily from December 31, 2017 to December 31, 2018
Sources: MMD (Municipal Market Data), Bloomberg, and BBH Analysis

The prepaid natural gas sector ("Prepaids") also struggled during the quarter, creating several opportunities for us. With only $80 billion outstanding, Prepaids occupy an interesting niche in the municipal market. In these transactions, the gas supplier contracts to deliver a fixed amount of natural gas for a specified amount of time at a discount to prevailing spot prices. The buyers are typically municipal electric utilities or gas distribution systems. These bonds help fund the gas purchases, which are often facilitated by a commodity subsidiary of a major bank, which can also provide guarantees around the overall structure. As a result, it is common for the ultimate obligor in these structures to be a bank, such as Bank of America or JP Morgan.

Prepaids allow banks to borrow tax-free in the muni market as long as they pass along some of their financing savings in the form of discounted gas prices. We collaborate with our colleagues on our taxable team to underwrite both the underlying credits and bond structures. Years ago, when we first researched these instruments, we were skeptical. However, we were comforted that the IRS opined and issued final regulations for Prepaids back in 2003. It is important to remember that these deals must support a valid municipal use for the natural gas and ensure that the participants abide by these rules, for the bonds to remain tax-exempt. Given the complexity of these bonds, clear initial and continuing disclosures are important to our understanding of the credit's performance, the flow of money, and the responsibilities of the involved parties.

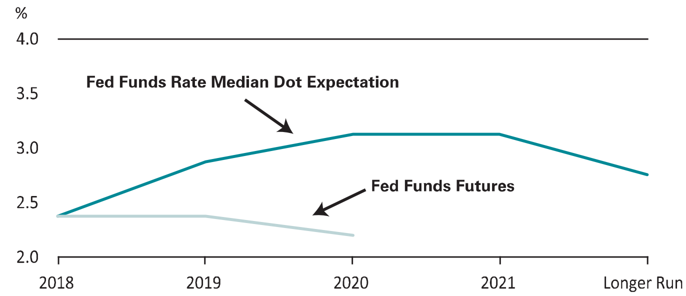
Late in the year, as taxable bank spreads widened significantly, so did Prepaids. We purchased a couple of new deals backed by Goldman Sachs and Morgan Stanley, as well as a seasoned issue backed by Bank of America. These bonds offered approximately 100 bps of spread for 5- to 7-year average lives, roughly 30 bps wider than during the summer.

Looking forward, we have doubts whether the late-year rally will be sustained. First, flight-to-quality episodes are short-lived. Second, negative municipal mutual fund flows cast a pall on the fourth quarter's strong performance. Over $5 billion of capital exited industry funds, with outflows in all but two weeks of the quarter. Approximately 60% of the capital left from "high yield" funds. These funds had been strong consumers of credit-sensitive bonds. Beyond mutual funds, banks continue to sell actively. The Fed recently reported that banks had liquidated 5% of their municipal holdings through the third quarter, or about $40 billion. The Fed data is subject to a timing lag, but we witnessed additional selling in the fourth quarter. Typically, industry outflows of this magnitude are associated with poorly performing markets, not strong ones.

The Fed presents another hurdle. Amid the chaotic fourth quarter, the Fed tightened for the fourth time this year, bringing this cycle's rate hike count to nine for a total of 225 bps. The Fed's current dot plot projects two rate increases in 2019, less than the three rate hikes it had previously projected in September. The new dot plot was well above that of market consensus, which sees the next move by the Fed as an ease in 2020.

The market's Fed expectations appear heavily influenced by the performance of equities. The stock market can generate important wealth effects and influence consumer sentiment. Since the leadership of Chairman Greenspan, the Fed has displayed an asymmetric attitude toward the stock market. The "Greenspan Put" entailed running to the rescue with policy accommodation during big market declines and letting markets run in good times. Thus far, Chairman Powell has acted in a more balanced fashion – a welcome development. Overall, we view both the Fed's assessment of the domestic economy and its policy stance as reasonable.

Fed Expect Slower Tightening, But Markets Suggest a Pause



Source: Federal Open Market Committee (FOMC)

Despite all the financial news banter, the domestic economy remains healthy and it continues to be pumped up with fiscal stimulus from Washington. The consensus forecast for this year's federal fiscal deficit is over $1 trillion – more than 5% of gross domestic product (GDP). We would be alarmed even if we did not invest bond portfolios for a living. Between the debt needed to finance Washington's prodigious spending and the expected $600 billion contraction in the Fed's balance sheet, the market will need to absorb a significant amount of government paper. This will likely place upward pressure on today's low rates.

Mutual fund redemptions, bank selling, continued Fed normalization, and rising deficit financing needs present serious pressure to today's still-low tax-exempt yields. The late-year municipal market strength surprised us and makes us question the sustainability of the recent rally. In contrast, what remained true to form was our ability to identify credit opportunities amidst all the redemption activity. After staying resilient all year while taxable credit sectors gyrated, municipal credit weakened and provided opportunities for which we had been patiently waiting.

With some markets in freefall, it is difficult not to experience flashbacks to the crisis 10 years ago. Today's heightened volatility has created loud reverberations throughout markets. These echoes of the financial crisis have probably caused more than a few headaches. For us, the best remedy is to stick to our criteria, stay patient, and keep the financial news TV on mute.

Best wishes for a healthy, happy, and prosperous 2019, and we thank you for your trust and support.

Sincerely,

Gregory S. Steier
Fund Manager

Share Class Overview
As of December 31, 2018

	Ticker	CUSIP	Inception Date	Total Net Assets (mil)	NAV	30-Day SEC Yield* (Subsidized)	30-Day SEC Yield* (Unsubsidized)
Class I	BBIIX	05528C824	04/01/2014	$240.0	$10.32	2.09%	2.09%
Class N	BBINX	05528C816	04/01/2014	$38.1	$10.32	1.93%	1.82%

* 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.

Credit Quality
As of December 31, 2018

Cash and Cash Equivalents	4.7%
AAA	29.8%
AA	34.0%
A	30.5%
BBB	1.0%
BB	0.0%
B or Lower	0.0%
Not Rated	0.0%
Total	**100.0%**

Reported as a percentage of portfolio securities.

Top 10 Holdings / Coupon / Maturity
As of December 31, 2018

Virginia State College Building Authority	5.000%	09/01/2027	2.6%
State of Texas	5.000%	08/01/2025	2.2%
Ohio State Housing Finance Agency	4.000%	03/01/2047	2.0%
State of Massachusetts	5.000%	07/01/2026	1.9%
Public Energy Authority of Kentucky (Peak) Gas Supply	4.000%	12/01/2049	1.7%
Florida State Housing Finance Corp	4.250%	01/01/2050	1.7%
Texas State Municipal Gas Acquisition	2.260%	09/15/2027	1.6%
Railsplitter Tobacco Settlement Authority	5.000%	06/01/2027	1.5%
Washington State Housing Finance Commission	2.260%	12/01/2048	1.4%
Florida Board of Education Lottery Revenue Bonds	5.000%	07/01/2027	1.4%
Total			**18.1%**

Reported as a percentage of total portfolio.

Sector Distribution
As of December 31, 2018

General Obligations	35.6%
Pre-Refunded	1.1%
Revenue	63.3%
Total	**100.0%**

Reported as a percentage of portfolio securities.

Fund Facts
As of December 31, 2018

Number of Holdings	174
Number of Issuers Held	95
Effective Duration (years)	4.71
Yield to Maturity	2.64%
Yield to Worst	2.61%

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.

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.

Yield to Worst is the lowest yield an investor can expect when there is optionality on the bond (i.e., call or put, etc.). Yield to Maturity and Yield to Worst are before fees and expenses.

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

There is no assurance that this investment objective will be achieved.

Diversification does not eliminate the risk of experiencing investment losses.

Investing in the bond market is subject to certain risks including market, interest-rate, issuer, credit, and inflation risk; investments may be worth more or less than the original cost when redeemed. Income from municipal bonds may be subject to state and local taxes and at times the alternative minimum tax. 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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