

# BBH Select Series - Large Cap Fund

## Quarterly Fund Update / 4Q 2019

Large-cap equities rallied throughout the fourth quarter of 2019, pushing the market to new highs and producing very strong returns for the full year. Overall economic stability and generally steady indications from corporate earnings supported the stock market during 2019, but in our view, the sharp rise to double-digit gains capping off the year was much more a function of a major shift in investor sentiment in response to new monetary accommodation and liquidity injections by the U.S. Federal Reserve (Fed) and a seeming breakthrough in trade negotiations between the U.S. and China.

During the quarter, investors bid higher for the shares of companies with larger exposures to pro-cyclical factors, foreign trade, and interest rates, driving outperformance for the value segment of the market compared to its growth counterpart. However, certain sub-groups within the growth side – including the well-known cohort of mega-cap technology momentum leaders – once again had outsized influence and contributed significantly to the equity market’s sharp gain. Industry groups that are typically deemed ‘safe havens,’ such as Real Estate, Utilities, and Consumer Staples, substantially underperformed the broader market in the quarter given the rotation described above.

The S&P 500 Index gained 9.07% in the fourth quarter on a total return basis and ended 2019 with a return of 31.49%. By comparison, BBH Select Series – Large Cap Fund (“the Fund”) rose by 4.46% in the fourth quarter. Since its inception on September 9, 2019 through year-end, the Fund rose by 4.14%, which compares to a total return of 9.12% for the S&P 500.

### Portfolio Contribution

For the second consecutive quarter, our largest positive contributor was **Alphabet Inc.**, which returned approximately 9.7% and was our largest position at the end of the year. The company’s share price gained steadily throughout the quarter as investors embraced a ‘risk-on’ appetite for large-cap technology and Internet platform leaders. In Alphabet’s case, we believe this sentiment was well grounded in substance, as the company delivered a solid earnings report at the end of October highlighted by currency-adjusted revenue growth above 20%, strong free cash flow generation, and continued investments in key growth areas such as public cloud, machine learning, automated mobility, and connected hardware. Throughout 2019, we believe that Alphabet’s financial results and strategic progress demonstrated not only the broad strength of the core businesses, but also the many positive feedback loops it shares with advertisers, application developers, business partners, and consumers – all of which ultimately reinforce the company’s competitive differentiation and growing set of opportunities.

In early December, Alphabet announced that its co-founders Larry Page and Sergey Brin would step back from their respective roles as CEO and President, while Sundar Pichai, who was CEO of the Google unit at the time, would become CEO of both Alphabet and Google. Mr. Pichai’s expanded role now includes oversight of Alphabet’s investments in its Other Bets segment, which includes various long-range projects that are currently outside the scope of the core business. Messrs. Page and Brin will continue to serve on the company’s Board of Directors and will retain ownership of their ‘super-voting’ Class B shares. Mr. Pichai has been the CEO of Google since 2015, having previously served as Product Chief. We have found him to be a capable leader who has demonstrated a willingness to take appropriate risks and invest aggressively where justified while still delivering robust growth and cash flow. Overall, we view this transition positively as it clarifies Alphabet’s corporate governance, raises the potential for additional financial disclosures, and represents an opportunity to tighten and harmonize the capital allocation framework.

Two other positive contributors in the fourth quarter were **Allegion PLC** and **Copart Inc.** Shares of Allegion rose in late October after the company reported strong third-quarter results in which solid mid-single-digit organic revenue growth drove a healthy increase in operating leverage. The ongoing secular shift to electronic locks and related products remains an important driver for Allegion, as demonstrated by company’s double-digit

Performance As of December 31, 2019							
	Total Returns		Average Annual Total Returns				
	3 Mo.*	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception
<b>Class I</b>	4.46%	N/A	N/A	N/A	N/A	N/A	4.14%
<b>Benchmark</b>	9.07%	N/A	N/A	N/A	N/A	N/A	9.12%
<b>Retail Class</b>	4.33%	N/A	N/A	N/A	N/A	N/A	3.70%
<b>Benchmark</b>	9.07%	N/A	N/A	N/A	N/A	N/A	9.12%

Class I Inception: 09/09/2019  
Retail Class Inception: 09/09/2019

**Class I: Total Expense Ratio (%) 0.80**  
**Retail Class: Net/Gross Expense Ratio (%) 1.05 / 1.13**

\* Returns are not annualized.

The Fund is new with a limited operating history.

The Investment Adviser has contractually agreed to limit the Total Annual Fund Operating Expenses for Retail Class shares to 1.05% through 9/9/2020. The Expense Limitation Agreement may only be terminated during its term with approval of the Fund’s Board of Trustees (the “Board”). Funds redeemed within 30 days of purchase are subject to a redemption fee of 2%.

**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.**

The S&P 500 is an unmanaged weighted index of 500 stocks providing a broad indicator of stock price movements. The composition of the index is materially different than the Fund’s holdings. The index is not available for direct investment.

Sources: BBH & Co. and S&P

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growth in this area. Allegion's recent operating margin improvements reflect strong price realization, volume leverage, and productivity, which collectively offset a combination of inflation, currency pressures, and investment spending. We believe Allegion's solid competitive position, the essential nature of its products, and its ability to price above input cost inflation should allow it to sustain attractive growth in economic profits.

Copart shares rose by more than 13% during the fourth quarter, adding to very strong gains that had been achieved earlier in 2019. We believe that robust growth in the company's valuation in the past year reflects strong operational performance, favorable secular trends that continue to benefit the business and the industry, forward-thinking moves by the management team, and the investment community's greater recognition of the interplay of all of these factors. In recent periods, Copart's revenue growth has benefited from changing dynamics in the buyer base, whereby international buyers now represent a larger portion of the total. International buyers favor salvageable cars that can be repaired and returned to service rather than sold for parts or scrap. As such, these buyers are generally willing to pay higher prices in Copart's auctions, which has the effect of indirectly lowering the damage threshold at which insurance carriers are willing to declare a car a total loss. Copart has several initiatives underway to help carriers incorporate this new dynamic into their salvage decisions and further optimize the claims process. Importantly, this changing demand profile is likely to lead to an increase in the number of vehicles in the salvage ecosystem and ultimately more vehicles for Copart to process.

Another important development in 2019 was the auto insurer GEICO's decision to shift a meaningful portion of its salvage vehicle processing volume to Copart (previously, GEICO had an exclusive partnership with Copart's competitor, IAA). In our view, winning a large amount of incremental volume with a sophisticated customer is not only an endorsement of the service capabilities and salvage price realization potential that Copart offers, but also a validation of the rationale behind management's yard expansion strategy, which has been a major feature of the company's capital allocation framework of the last few years.

Our largest performance detractor in the fourth quarter was Oracle Corp., which declined 3%. Weakness in the shares during the period can probably be attributed to two matters. The first was the sad and untimely passing of the co-CEO Mark Hurd in October. Mr. Hurd, a technology industry veteran and a dynamic leader, had begun a medical leave of absence in September due to a serious illness. While his death created a degree of uncertainty given the loss of his influence and hard work, Oracle's unique co-CEO structure ensured continuity in the person of Safra Catz, who we view as an outstanding operator. As well, founder Larry Ellison continues to serve as Chief Technology Officer and Chairman of the Board, with a *de facto* role as Oracle's leading ambassador. Mr. Hurd's sales and marketing focus leaves a gap to be filled, but we believe the company is making progress in identifying successors for those roles.

The other factor weighing on the shares was Oracle's second fiscal quarter earnings report in December. Total revenues were slightly below expectations, with weaker-than-expected growth in software licensing. Nevertheless, profitability and cash flow remained solid, and the company's operational performance highlights were encouraging. We were especially pleased with management's commentary regarding a growing level of client interest and adoption of Oracle's new Autonomous Database product. Our industry checks during the year corroborated this trend. Additionally, given the typical seasonality of Oracle's in-year revenue patterns, the October fiscal quarter tends to be light as many customer decisions get pushed toward the end of the calendar year. As such, we do not believe that unforeseen competitive pressures or execution missteps were likely to have impacted the results.

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Holdings As of December 31, 2019	
Alphabet (Class C)	7.3%
Berkshire Hathaway Inc (Class A)	6.2%
Oracle Corp	6.0%
Comcast Corp (Class A)	5.8%
US Bancorp	5.2%
Copart Inc	4.9%
Zoetis Inc	4.2%
FleetCor Technologies Inc	4.1%
Allegion Plc	3.6%
Linde PLC	3.6%
Arthur J Gallagher & Co	3.5%
Novartis AG ADR	3.4%
Brown-Forman Corp Class B	3.4%
Diageo Plc	3.2%
Celanese Corp	3.0%
Henry Schein Inc	2.8%
AO Smith Corp	2.8%
Unilever NV ADR	2.8%
Dollar General Corp	2.7%
Mastercard Inc	2.5%
Booking Holdings Inc	2.3%
Colgate-Palmolive Co	2.2%
Alcon Inc	2.2%
Nestle SA ADR	1.9%
KLA-Tencor Corp	1.7%
Waste Management Inc	1.7%
Perrigo Co Plc	1.7%
Costco Wholesale Corp	1.4%
Bright Horizons Family Solutions Inc.	1.4%
Berkshire Hathaway Inc (Class B)	0.4%
Cash and Cash Equivalents	1.9%

Holdings are subject to change.

## Portfolio Changes and Valuation

The fourth quarter was relatively quiet in terms of portfolio changes, as we did not make any new purchases, nor did we exit any positions. However, we did add to several existing holdings and trimmed others, resulting in a modest net deployment of capital.

In October, we purchased additional shares of **Costco Wholesale Corp.** and **A.O. Smith Corp.** as we continued to build toward our desired weights while remaining sensitive to valuation. Both were new positions for Core Select earlier in 2019. Similarly, we added incrementally at various points to our positions in **Arthur J. Gallagher & Co.**, **Bright Horizons Family Solutions Inc.**, **Colgate-Palmolive Co.**, and **Alcon Inc.**, all of which were new investments in 2019. In November, we added to our holdings of Unilever NV as the stock drifted lower in 2019 as certain discrete pockets of weakness within the business had tempered near-term sales growth. We believe these challenges are resolvable given the remedial steps already underway and the multitude of strategic options that management can employ given the company's superior scale, breadth of product offering, and sophisticated marketing and innovation engines. In December, we again added to A.O. Smith at prices we found attractive.

Twice in early November and again in early December we purchased shares of **Booking Holdings Inc.** as the stock experienced a significant pullback following a tumultuous quarterly report and management upheaval at Expedia, a key competitor in the online travel market. Challenges at Expedia were primarily related to its mix of website traffic generated through organic search channels versus paid channels, as well as share gains by Google's travel-related consumer search tools. The threat of Google capturing a greater share of travel commissions is also a key risk for Booking, and it is a topic we have researched and debated extensively. Our view is that Booking's business model, its emphasis on lodging (as opposed to air travel and car rental), and its geographic concentration provide a substantive degree of shielding from competitor encroachment; however, it is an issue we will continue to monitor closely.

We modestly trimmed seven different positions during the fourth quarter as their respective share prices approached our estimated ranges of intrinsic value<sup>1</sup>. These were KLA Corp., Copart, Novartis AG, Zoetis, U.S. Bancorp, FleetCor, and Allegion.

At the end of the 2019, we had positions in 29 companies with 51% of our assets held in the 10 largest holdings. As of December 31, the Fund was trading at 91% of our underlying intrinsic value estimates on a weighted-average basis, which represents the upper end of our long-term range for this metric. We ended the quarter with a cash position of 1.9%.

## Commentary

The composition of the equity market's sharp run-up in the fourth quarter suggested a widespread rotation toward riskier stocks, while relatively safer and less volatile groups lagged significantly. Borrowing the language of the bond markets, one of the central themes that seemed to drive the rally was an embrace of *duration*, in the sense that investors appeared to aggressively bid for companies with less certain or less proximate cash flow streams. Noting the abrupt policy reversal on the part of the Fed as it once again began to encourage lower short-term rates and resumed massive injections of liquidity into the market, the bounce in equity valuations had some theoretical and practical grounding in monetary economics. However, the fact that the Fed was compelled to re-engage in this way suggests that gaps remain in the normal linkages between progress in the production economy and the underpinning of capital market behaviors and asset pricing. We continue to believe that monetary policy, even in its more novel forms, has distinct limitations when it comes to influencing economic 'animal spirits' in the form of expansion-oriented corporate planning, greater consumer comfort, and broad confidence in the rewards of productivity, thrift and investment. It appears to us that the Fed is once again adopting a primary focus on policies that encourage higher asset prices, and to a large extent markets have complied despite a mixed set of underlying economic signals. As such, we remain alert to possible sentiment imbalances and valuation risks.

The Select Series-Large Cap team is pleased with both the strong absolute, compounded returns we have achieved over the last several years and our upside participation relative to the sharply rising equity market overall. We are committed to the patient application of our demanding investment criteria and detailed investment process. Our top priorities remain capital preservation and attractive full-cycle compounding through the ownership of superior quality businesses at attractive valuations. We greatly appreciate your continued interest and support, and we look forward to providing further updates on our portfolio as 2020 progresses.

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<sup>1</sup> BBH's estimate of the present value of the cash that a business can generate and distribute to shareholders over its remaining life.

**Investment Team Update**

We are pleased to report that Shan Wang joined the investment team in November. Shan had previously held research roles at First Eagle Investment Management and PIMCO. She received an engineering degree from the University of Michigan and a master's degree in computational finance from the Tepper School of Business at Carnegie Mellon University. Shan focuses on the Technology industry.

Sincerely,



*Michael R. Keller, CFA*  
*Fund Manager*



Share Class Overview  
As of December 31, 2019

	Ticker	Inception Date	Total Net Assets (mil)	NAV
<b>Class I</b>	BBLIX	09/09/2019	\$417.3	\$10.41
<b>Retail Class</b>	BBLRX	09/09/2019	\$1.8	\$10.37

Equity Weighting  
As of December 31, 2019

Common Stock	98.1%
Cash and Cash Equivalents	1.9%
<b>Total</b>	<b>100.0%</b>

Fund Facts  
As of December 31, 2019

Number of Securities Held	30
Average P/E	23.5
Average Market Cap (bil)	\$126.5
Exclude cash equivalents	

Sector Weighting  
As of December 31, 2019

Communication Services	13.3%
Consumer Discretionary	6.5%
Consumer Staples	15.2%
Energy	0.0%
Financials	15.6%
Health Care	14.6%
Industrials	13.3%
Information Technology	14.7%
Materials	6.8%
Real Estate	0.0%
Utilities	0.0%
<b>Total</b>	<b>100.0%</b>

Reported as a percentage of portfolio securities.

Top 10 Companies  
As of December 31, 2019

Alphabet Inc	7.3%
Berkshire Hathaway Inc <sup>1</sup>	6.6%
Oracle Corp	6.0%
Comcast Corp	5.8%
US Bancorp	5.2%
Copart Inc	4.9%
Zoetis Inc	4.2%
FleetCor Technologies Inc	4.1%
Allegion Plc	3.6%
Linde PLC	3.6%
<b>Total</b>	<b>51.3%</b>

Reported as a percentage of total portfolio.

<sup>1</sup> Berkshire Hathaway Inc is comprised of Berkshire Hathaway Inc (Class A), 6.2%, and Berkshire Hathaway Inc (Class B), 0.4%.

Holdings 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 change 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.

International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards.

**For more complete information, visit [www.bbhfunds.com](http://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 1100, Denver, CO 80203.

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No Bank Guarantee

May Lose Money

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