BBH Partner Fund – International Equity

Quarterly Fund Update / 2Q 2020

For the second quarter ended June 30, 2020, the BBH Partner Fund – International Equity (the "Fund") returned +22.07%. Over the same period, the MSCI EAFE Index[1] (the "Index") returned +14.88%.

Select Equity Group, L.P., the Fund's sub-adviser, assumed management of the Fund February 24, 2017. Since that date through the second quarter of 2020, the Fund has generated a net annualized return of +9.5%, outperforming the Index's return of +3.2% by approximately +630 basis points[2] ("bps") per annum. The Fund has generated a net cumulative return of +35.6%, outperforming the Index's cumulative return of +11.0% by approximately +2,450 bps.

Performance
As of June 30, 2020

	Total Returns		Average Annual Total Returns				
	3 Mo.*	YTD*	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception
Class I	22.07%	0.18%	5.61%	7.40%	6.58%	7.68%	5.56%
MSCI EAFE Index	14.88%	-11.34%	-5.13%	0.81%	2.05%	5.73%	4.37%

Class I Inception: 10/25/2002 Class I: Total Expense Ratio (%): 0.71

* Returns are not annualized.

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%.*

Class I commenced operations on 10/25/2002. Total return information for Class I shares from 10/24/2002 to 6/7/1997 is that of Class N shares and from 6/6/2017 to 4/1/1995 is that of the BBH International Portfolio. Class N's and predecessor Fund's performance has been adjusted to assume that all charges, expenses, and fees which are presently in effect for Class I were deducted during such periods, as permitted by applicable SEC staff interpretations.

MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

Sources: BBH & Co. and MSCI EAFE

Introduction

The second quarter of 2020 saw global equity markets rebound sharply, following the historic sell-off in share prices in the last five weeks of the previous quarter. As we wrote in our last Quarterly Fund Update, the COVID-19 pandemic caused a fear-driven flight from equities in February and March 2020 that left many of the highest-quality growth companies in the world trading at significant discounts to our estimates of their intrinsic values[3]. Having entered the year positioned very conservatively (with nearly 20% of the portfolio in cash in early February), the Fund deployed capital aggressively and became nearly fully invested by mid-March, taking advantage of attractive valuations, while also rotating capital to businesses that we believed would prove surprisingly resilient to the global recession that accompanied the pandemic. We believed that the companies we owned in the Fund were significantly undervalued by late March, and we were rewarded for having bought into market weakness as the portfolio proceeded to deliver broad-based gains in the second quarter.

While international stock markets have staged a stunning V-shaped recovery, we continue to see an unusually wide potential cone of outcomes for the global economy as we move into the back half of 2020. We find it remarkable that international markets returned to near normal during the second quarter, even as the world's largest economy (the United States) failed to contain the spread of the pandemic. While some investors, no doubt, began to discount the possibility of a COVID-19 vaccine ultimately coming to the market (the timing of which remains highly uncertain), we attribute much, if not most, of the strength in share prices during the quarter to aggressive monetary easing by global central banks. With equity valuations now well off their recent lows, but the world economy still mired in a deep recession, we expect significant market volatility ahead. Our investment philosophy has always been to own companies that we believe can "make their own luck" in a difficult or uncertain macro environment, an approach that we think is particularly important at this moment in time. We were generally pleased with the performance of our businesses as the world absorbed the economic shock of the pandemic-fueled lockdown. Most of the high-quality, recession-resistant businesses we purchased (or added to) in Q1 reported strong fundamental results, while providing reassuring full-year guidance during the second quarter. As a result, many of these companies saw their share prices rebound dramatically in a very short time, and we spent much of the period gradually trimming back exposure into renewed strength.

[1] The MSCI EAFE Index is designed to represent the performance of large- and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, and excluding the U.S. and Canada. The index is available for a number of regions and market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries. The Index is not available for direct investment.

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

[3] The sub-adviser's estimate of the present value of the cash that a business can generate and distribute to shareholders over its remaining life.

Performance Review

In the second quarter, we had 40 positions that contributed +0.10% or more each to the Fund's returns, 34 of which contributed greater than +0.20%. No positions detracted from the Fund's returns during the period. In the first six months of 2020, we had eight positions that contributed greater than +0.50% each, and seven positions that detracted greater than -0.50% each.

The largest contributor during the period was **Adyen** (ADYEN NA), a Netherlands-based global leader in online payment processing that we profiled in our last Quarterly Fund Update. Adyen's software and tools enable merchants to accept payments online (via its e-commerce websites) from customers around the world, and the company provides its customers with a variety of back-end technology services, including fraud detection, transaction authorization, and foreign currency translation, ensuring that its merchant customers can sell to the widest possible global audience with minimal risk. Its financial model is a tollbooth on the growth of global e-commerce, a business that has only accelerated as the COVID-19 pandemic forced consumers around the world to conduct business almost entirely online. We added significantly to our Adyen position during last quarter's market sell-off, and we spent the second quarter conducting additional fieldwork on the company which further confirmed our conviction in its competitive moat. Customers and former employees agreed that it would take five to 10 years to replicate Adyen's "full stack" of technology, thanks in part to the difficulty of acquiring the local licenses needed to operate its payment gateways globally. In late April, Adyen reported strong Q1 results despite the global recession with total payment volume growing 38%, revenue up 34%, and earnings before interest, taxes, depreciation, and amortization (EBITDA) up 16%, as EBITDA margins remained a very healthy 47% despite continued reinvestment. Adyen shares gained +72% (in USD) in the quarter, contributing over +220 bps to performance.

Our second-largest contributor to performance in the second quarter was **Tencent Holdings** (700 HK), a company we last profiled in our Q3 2019 Quarterly Fund Update. Tencent owns and operates a portfolio of fast-growing and highly profitable online content businesses in mainland China, and management has adeptly pursued a competitive strategy that identifies and capitalizes on synergies across its platforms. In China, Tencent is the leading online publisher and distributor of video games, the dominant communications platform and social network (with more than 1.1 billion monthly active users) and one of the country's two largest providers of non-cash payment processing. Tencent's management team — led by "Pony" Ma, who owns more than 8% of shares — has proven remarkably innovative over time in its research and development (R&D) efforts and continues to incubate and launch new adjacent growth businesses, including one of China's top two online platforms for video and music, China's second-largest provider of cloud-computing infrastructure, and China's leading online video-conferencing platform.

We initiated our current position in Tencent in the fall of 2018 when the company's fast-growing and lucrative video game business abruptly slowed due to a regulatory change in which new game approvals were paused while China merged two regulatory agencies into a single oversight body. Over the last 18 months, Tencent's video game business has returned to growth (in line with our multi-year thesis), while its online advertising and commercial payment businesses have become even more significant (and fast-growing) contributors to the company's profitability. We added to our Tencent position on weakness over the last few months, believing that most, if not all, of its businesses would be net beneficiaries of the consumption changes brought about by the COVID-19 pandemic. During the second quarter, Tencent released its results for the January through March period that included nearly the entire impact of China's pandemic-induced economic lockdown. The company grew revenue by 26% and operating profit by 30% during the period, while more than doubling its free cash flow. Tencent's shares advanced more than +31% (in USD) in the second quarter, contributing over +190 bps to the Fund's performance. We believe the shares remain significantly undervalued with a 3%-4% free cash flow yield as well as one of the fastest free cash flow growth profiles in our investible universe, and the company ended the period as the Fund's second-largest position.

Portfolio Developments

As of the end of the second quarter, our portfolio's valuation represented approximately 10%-15% upside to our estimate of its intrinsic value. To put that in context, the portfolio's upside to our estimate of intrinsic value was negligible at year-end 2019, whereas at the depths of the Q1 2020 sell-off the portfolio's upside was well over 40%-45%. On average, since inception, the Fund's valuation has ranged between 10%-20% upside. Our cash balance at quarter-end was roughly 10%, up from approximately 9% at the end of the first quarter, but down from roughly 19% at year-end 2019.

We ended the period owning 42 companies, up from 41 at the end of Q1. As markets have recovered and valuations have rebounded from the lows of the previous quarter, we have positioned the Fund to be more concentrated in our highest-conviction ideas. Our 15 largest positions at quarter-end represented 55% of the portfolio, while our 20 largest positions represented 65%.

Early in the second quarter, we added to our position in **Spotify Technology** (SPOT), which we have owned since the second quarter of 2019. Based in Sweden, Spotify is the world's largest music streaming subscription service, with 130 million paying subscribers and nearly 300 million total users. We believe that streaming is well on its way to becoming the dominant method of music consumption around the world; among 16- to 24-year-olds, streaming accounts for 47% of listening time today, compared to less than 20% for listeners over the age of 45. Despite facing formidable competitors, Spotify remains the industry leader in music streaming with a compelling product that leverages nearly 15 years of research and development. Spotify occupies a unique position in the music industry value chain. Thanks to streaming, and particularly to the surging global popularity of Spotify, industrywide music revenue has resumed year-on-year growth in the past three to five years after declining consistently from 1999-2014. Music publishers and artists increasingly rely on Spotify for their annual revenue growth — which is even more true today as the global pandemic has effectively prevented artists from making money through concert tours — giving Spotify significant leverage in its multi-year royalty negotiations with the large global record labels. Founders Daniel Ek (who remains CEO) and Martin Lorentzon still own more than 20% of the company's shares and have a long-term track record of making prudent investments to drive long-term shareholder value.

Top 10 Companies As of June 30, 2020	
SAP SE	6.4%
Tencent Holdings Ltd	6.1%
AIA Group Ltd	4.6%
ASML Holding NV	4.2%
Alibaba Group Holding Ltd	4.0%
Adyen NV	4.0%
Merck KGAA	3.4%
Alcon Inc	3.1%
Partners Group Holding AG	3.0%
Shiseido Co Ltd	2.9%
Total	**41.6%**

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

Over the past five years, Spotify has grown its monthly active users (MAUs) by 37% annually, while growing its revenue by more than 40% annually. We believe the company has a significant opportunity to grow users and revenue for the next decade, including a relatively new initiative enabling it to generate advertising revenue by allowing artists and labels to market directly to targeted listeners over the Spotify platform. As Spotify scales, we also expect meaningful expansion in the company's profit margins. The business already generates significant free cash flow and should see profits ramp materially in the years ahead as revenue grows significantly faster than the fixed costs needed to run its platform. We bought more Spotify shares early in the second quarter, believing that the company was at a potentially meaningful inflection point. Recent investments in a new podcasting initiative were now fully reflected in margin expectations, multi-year negotiations with the major record labels were largely complete, and all forms of online consumption (including music streaming) were benefiting from global shelter-in-place behavior during the pandemic. Spotify subsequently released very strong quarterly results, and its shares proceeded to rally significantly late in the second quarter, driving a gain of approximately +113% (in USD) in the quarter. Spotify ended the second quarter as one of our top five contributors.

During the second quarter, we initiated a position in **Shimano** (7309 JP), a company we have studied and admired for nearly a decade. Shimano is a Japanese manufacturer of outdoor recreational equipment — most notably bicycle components, such as cranksets, chains, wheel hubs, gear-shift levers, and brake levers. Founded in 1921, Shimano is the clear market leader in most of its addressable markets with an estimated 60%-70% share in bicycle components and with only one viable global competitor. Shimano's competitive moat is the result of its low-cost manufacturing base in emerging Asian countries including China and the Philippines (competitor SRAM manufactures in Taiwan) as well as its engineering expertise accumulated from a century of operations, particularly in low-cost methods such as cold-forged steel. This entrenched position in the value chain gives Shimano strong pricing power and consistently high profit margins. Over the last 10 years, Shimano has grown its revenue, operating profit and cash earnings at compound annualized rates of 7%, 13%, and 19%, respectively. As we look ahead, we expect Shimano to be a natural beneficiary of shifts in consumer behavior as a result of the COVID-19 pandemic. The global bicycle industry is currently experiencing surging demand as a healthy form of socially distanced outdoor exercise as well as a transportation alternative for workers reluctant to commute via mass transit. We recently conducted proprietary survey work in addition to traditional field interviews with bike distributors. Both projects affirmed that the pandemic is accelerating interest in cycling with distributors reporting a dramatic increase in demand across every bicycle price point and category (as well as in aftermarket and repair activity, which comprises 30% of Shimano's sales).

The Investment Environment

It would be difficult to overstate the role played by monetary and fiscal stimulus in the dramatic recovery of developed-nation markets since their late-March lows. The big four central banks purchased $6 trillion in public and private sector debt in the first half of 2020 (with the U.S. Federal Reserve [Fed] buying high-yield bonds for the first time) — an amount four times greater than the cumulative total purchased in the five years after the Global Financial Crisis (GFC). Governments around the world, by our count, announced a staggering $13 trillion in fiscal stimulus, which equates to approximately 15% of global gross domestic product (GDP) and dwarfs the post-GFC fiscal stimulus of just 2% of GDP. These measures triggered the biggest divergence in performance between the stock market and the real economy in modern times. While financial assets soared, the sharpest and deepest recession since the 1930s Great Depression took hold, and consensus estimates for global GDP growth in 2020 collapsed from 3.1% to -3.7%.

Looking forward, we believe that vaccine development is a necessary, but insufficient, condition for the return of economic normality. As of this writing, the Regulatory Affairs Professionals Society (RAPS) COVID-19 vaccine tracker lists 42 candidates currently in Phase 1-3 trials. This is undeniably encouraging, as are predictions from frontrunners that their vaccines will be "ready" later this year or early next. However, far too little attention is paid to the three remaining hurdles: production, distribution, and enduring efficacy. Billions of doses will need to be manufactured, paid for, and dispensed to as much as 70% of the world's population (over the objections of significant "anti-vax" movements in the U.S., Europe, Latin America, and Japan) in order to achieve herd immunity. Any vaccine must prove itself up to the task of sustaining its effectiveness, even as the coronavirus mutates, or the entire frantic process may need to be repeated annually, perhaps indefinitely.

Unfortunately, the market's faith in the "safety" of the stimulus "numbers" may prove fleeting if they cannot be sustained until herd immunity is reached. For now, the Fed and the European Central Bank have successfully backstopped markets as evidenced by the fact that spreads of investment grade and high-yield bonds over Treasuries have nearly returned to pre-COVID-19 levels. This suggests to us that quantitative easing (QE) and near-zero interest rates are now discounted for the foreseeable future. With monetary stimulus "all in," the burden of dealing with ongoing or new coronavirus outbreaks sits squarely on the shoulders of governments, many of which are running out of fiscal space and are faced with public sector deficits and debt which are already so high as to necessitate tax increases. The International Monetary Fund estimates that the developed world fiscal deficit will rise from -3.3% of GDP in 2019 to -16.6% this year, with the U.S. way ahead of the pack at -23.8%. These are staggering numbers but would rise further if additional stimulus is enacted (as is expected). Meanwhile, growth expectations continue to be revised down. The monthly $600 lifeline accorded to unemployed Americans is set to expire on July 31. Though renewal in some form seems probable, many fiscal cliffs are likely to be reached before a vaccine comes to the rescue.

If these concerns were not enough, there are other reasons to worry. Among them: a lack of recovery in corporate earnings as we near the end of the fiscal year; a U.S. presidential election with the potential to be one of those most disruptive and contentious in history; a "hard" Brexit in January; an escalating technological cold war between the U.S. and China; continued deglobalization; and a continued rise in wealth and income inequality. Given this fairly sobering macro backdrop, our outlook remains cautious. If there is one silver lining, however, it is that volatility is back with vengeance – a welcome development that creates more opportunity for us to buy our favorite businesses at discounts to intrinsic value. Whereas a typical year generally presents more than 30 trading days when the Index declines by more than -1%, QE and monetary easing in 2017 and 2019 suppressed volatility to such a degree that we saw just two and eight such days, respectively. During the second quarter of 2020, despite the overall steep recovery, we had 12 such days.

Having gradually rebuilt our cash position over the last few months, we look forward to seizing opportunities that volatile markets are likely to present in the year ahead. In the meantime, we are confident in the ability of our portfolio companies to make their own luck in a turbulent economy and are happy to own these businesses with a five-year view. We will continue to concentrate the portfolio in those stocks that we believe offer the best risk-reward proposition for our investors. We aim to provide our investors with long-term maximization of total return, primarily through capital appreciation.

The Fund seeks to generate attractive returns over time but does not attempt to mirror a benchmark or index. The composition of the MSCI EAFE Index is materially different than the Fund's holdings.

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.

Foreign investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards. Prices of emerging markets 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. 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. 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.

Asset allocation decisions, particularly large redemptions, made by BBH&Co., whose discretionary investment advisory 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.

Select Equity Group, L.P. acts as the sub-adviser to the Fund.

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