

## CAPITAL PARTNERS

# BBH Select Series - Large Cap Fund

## Quarterly Update | 4Q 2024

### Highlights

- During the fourth quarter of 2024, most companies in the BBH Select Series – Large Cap Fund (the Fund) reported third quarter 2024 results and provided near- and longer-term guidance.
  - The financial results of the companies in the Fund were strong on an absolute basis and compared favorably to the benchmark S&P 500 Index (the Index).
  - We would characterize forward guidance by the companies in the Fund as increasingly cautiously near term and highly confident medium to longer term.
- During the quarter, while market breadth significantly increased beyond mega-cap technology companies, stock price performance was heavily influenced by returns of lower-quality companies, both deeper value and less profitable hyper-growth index constituents, as easing by central banks and other stimulus fed an appetite of increased risk.
- On a total return basis, the Fund lost -2.97% in the fourth quarter of 2024, while the Index increased 2.41%. The largest detractor to performance within both the Fund and Index was the broader Healthcare sector, which underperformed by approximately 12.5%.
- We remain pleased with the year-to-date fundamental performance of the companies in the Fund, which has been strong on both an absolute and relative basis, continuing trends we have seen for some time. Fundamental performance driving economic value creation remains very favorable for the strategy on an absolute basis and relative to the Index, as does relative valuation, against a backdrop of very full absolute valuation level.
- While we view the next few months with caution, it's the strong fundamental performance and superior valuation of the companies in the Fund that we are most pleased about. This is the source and driver of our conviction in the long-term return potential the Fund offers our clients.

### Market overview

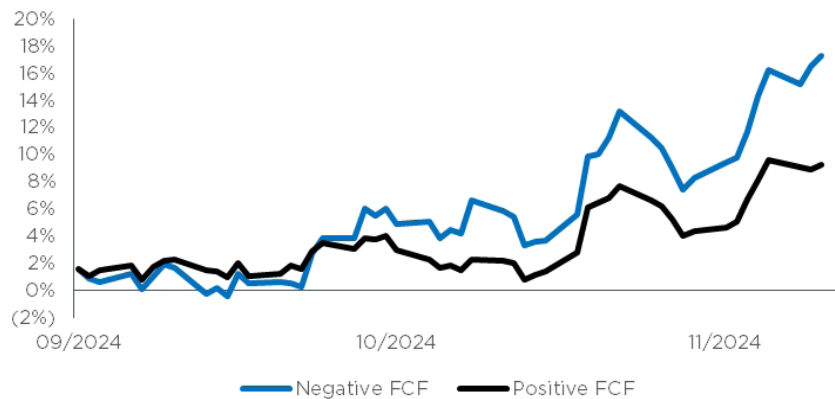
During the fourth quarter of 2024, most companies in the Index reported third quarter 2024 results and provided near and longer-term guidance. Companies in the Index combined to report mixed results in the third quarter of 2024, with strong growth in earnings contrasting with more modest results in free cash flow generation. Through the third quarter, net earnings per share (EPS) of the companies in the Index grew a healthy 8.3%; however, free cash flow per share growth for the Index was a more pedestrian 4.3% and relative to near-term expectations. If fourth quarter consensus is met, earnings for 2024 for the Index would finish the year up approximately 8.0% and free cash flow to equity would be down approximately 0.8%.

The largest detractor (-117 basis points [bps])<sup>1</sup> to total return was the broader healthcare sector, which investors shunned in favor of high-growth tech stocks. Election uncertainties, created by Robert F. Kennedy Jr.'s nomination to head the Department of Health and Humans Services (HHS), as well as generally weak earnings, weighed heavily on the sector at the end of last year and could continue to cause volatility in the near term.

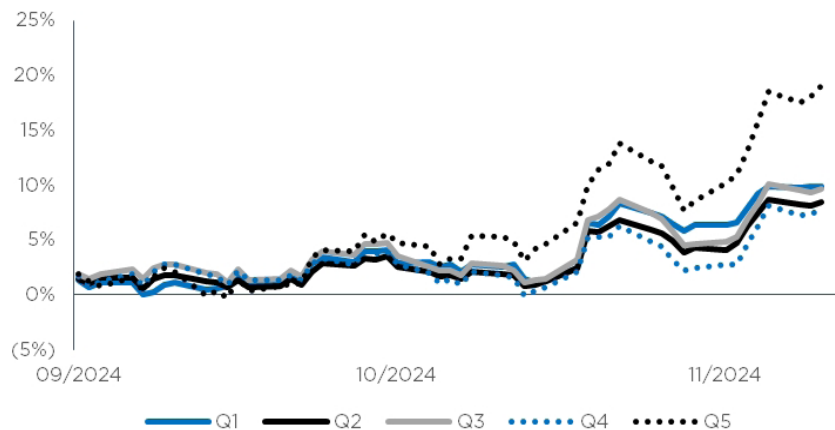
During the quarter, Index returns were heavily influenced by the outsized stock price performance of lower quality companies, both deeper value and less profitable hyper-growth Index constituents, as easing by central banks and other stimulus fed an appetite of increased risk. These stimulative actions were deemed to disproportionately benefit companies that are a poor fit with our investment criteria and ones we seek to avoid, both by the strategic design of our investment criteria and its diligent implementation, in our effort to produce durable absolute and relative returns over the long-term and fundamentally outperform during periods of economic or market stress.

Specifically, within the Index, companies in the lowest-quality quintile of operating margin, return on equity and net income, and free cash flow growth have materially outperformed those in higher-quality cohorts of each metric. These have combined to produce a non-quality rally that has few, if any, true parallels and that some would suggest is indicative of extreme risk-taking.

**Cumulative Performance by Free Cash Flow  
Positive or Negative  
September 18, 2024 to November 29, 2024**



**Cumulative Performance by Operating Margin Quintile  
September 18, 2024 to November 29, 2024**



Source: Trivariate Research Partners

**Past performance does not guarantee future results.**

<sup>1</sup> Basis point (bp) is a unit that is equal to 1/100th of 1% and is used to denote the change in price or yield of a financial instrument.

Regardless of the mixed and rather subdued outlook provided by reporting companies, the Index continued to build on its incredibly robust stock price performance over the past 18 months: The S&P 500 posted a further gain of 2.41% during the fourth quarter 2024 period to end the year up almost 25%. The strong stock price performance of the Index was led by four sectors: consumer discretionary (+14.3%) led the way, with communication services (+8.9%), financials (+7.1%), and information technology (+4.8%) rounding out the positive contributors. In aggregate, these sectors contributed approximately 450 bps on an absolute basis to total return. Lower levels of concentration and a meaningful rotation away from high-quality growth companies were the key themes during the past three months.

### Fund commentary

During the fourth quarter of 2024, most companies in the Fund reported third quarter 2024 results and provided near- and longer-term guidance. The financial results of the companies in the Fund were strong on an absolute basis, with net earnings and free cash flow per share growing 20.9% and 19.2%, respectively, during the first nine months of the year. This compared very favorably to the fundamental performance of the Index, where net earnings and free cash flow per share increased 8.3% and 4.3%, respectively, continuing a multi-year period of fundamental outperformance. To that end, our companies have executed well and have produced solid growth and fundamental economic performance while maintaining appropriately conservative capital structures. These achievements are evident at the aggregate level, where we have observed attractive growth in revenue, cash flow, and earnings, superior profit margins, returns on capital, and healthy balance sheets.

We maintained a modest level of cash at the end of the quarter, and this is a necessary by-product of our valuation discipline. Specifically, we have and will continue to trim and sell companies when valuations increase to levels we believe to be in excess of the range of reasonable economic outcomes implied by current stock prices. Conversely, we may add new companies that meet our investment criteria and may add to existing company positions when valuations are at levels we believe to be attractive in light of the range of reasonable economic outcomes implied by current stock prices. While we remain focused on finding new investments that meet our investment criteria and are attractively valued, we do so in the context of a market environment we view as challenged, with risks evident on many fronts.

#### CALENDAR YEAR ENDING 2023

| Free cash flow per share          | 2024 / Q3 YTD | 1 y-o-y | 3 yr. CAGR | 4 yr. CAGR | 5 yr. CAGR |
|-----------------------------------|---------------|---------|------------|------------|------------|
| <b>Fund</b>                       | 19.2%         | 21.0%   | 10.3%      | 12.6%      | 9.6%       |
| <b>S&amp;P 500</b>                | 4.3%          | -3.1%   | 5.2%       | 5.7%       | 5.1%       |
| <b>S&amp;P 500 equal weighted</b> | 5.7%          | 6.0%    | 5.2%       | 4.8%       | 6.0%       |

| Net earnings per share            | 2024 / Q3 YTD | 1 y-o-y | 3 yr. CAGR | 4 yr. CAGR | 5 yr. CAGR |
|-----------------------------------|---------------|---------|------------|------------|------------|
| <b>Fund</b>                       | 20.9%         | 15.7%   | 16.2%      | 15.6%      | 10.7%      |
| <b>S&amp;P 500</b>                | 8.3%          | -1.4%   | 16.7%      | 8.0%       | 6.7%       |
| <b>S&amp;P 500 equal weighted</b> | 2.5%          | 1.9%    | 22.8%      | 8.1%       | 7.6%       |

*Past performance does not guarantee future results.*

Over any period of time, stock prices reflect the confluence of many factors as well as the perspectives of myriad other investors, both active and passive, that do not share our perspectives on risk, fundamental economic value creation, or how to properly measure it. Regardless of these other views, over the long term, we believe that it is a reasonable and an economically sound premise that the price of stocks should follow their growth in free cash flow per share and that attractive valuations support economic upside and mitigate risk. Consequently, that will remain our focus as we seek to deliver both strong absolute and relative after-tax returns over the long term.

## Fund activity

During the quarter, we made several portfolio rebalancing trades reflective of relative valuation opportunities, risk, and fit with our investment criteria. Turnover during the quarter was less than 1%, reflecting our caution with high market expectations and valuations at a very full level.

| HOLDINGS (AS OF DECEMBER 31, 2024) |                        |            |
|------------------------------------|------------------------|------------|
| Holding                            | Sector                 | Weight (%) |
| Alphabet Inc - Class C             | Communication services | 7.97       |
| Microsoft Corp                     | Information technology | 6.76       |
| Berkshire Hathaway Inc - Class A   | Financials             | 6.10       |
| Mastercard Inc - Class A           | Financials             | 6.01       |
| Oracle Corp                        | Information technology | 5.87       |
| Linde Plc                          | Materials              | 4.99       |
| KLA Corp                           | Information technology | 4.65       |
| Costco Wholesale Corp              | Consumer staples       | 4.57       |
| Arthur J. Gallagher & Co           | Financials             | 4.39       |
| Amazon.com Inc                     | Consumer discretionary | 4.29       |
| Waste Management Inc               | Industrials            | 4.14       |
| Progressive Corp                   | Financials             | 4.04       |
| Alcon Inc                          | Health care            | 3.69       |
| Booking Holdings Inc               | Consumer discretionary | 3.64       |
| S&P Global Inc                     | Financials             | 3.15       |
| Thermo Fisher Scientific Inc       | Health care            | 3.03       |
| Adobe Inc                          | Information technology | 2.97       |
| Zoetis Inc                         | Health care            | 2.92       |
| Abbott Laboratories                | Health care            | 2.86       |
| Texas Instruments Inc              | Information technology | 2.55       |
| Automatic Data Processing          | Industrials            | 2.32       |
| UnitedHealth Group Inc             | Health care            | 1.93       |
| Nike Inc - Class B                 | Consumer discretionary | 1.72       |
| Applied Materials Inc              | Information technology | 1.67       |
| U.S. Dollar                        |                        | 1.59       |
| Otis Worldwide Corp                | Industrials            | 1.28       |
| Cadence Design Systems Inc         | Information technology | 0.87       |

Holdings are subject to change.

We trimmed positions in **Berkshire Hathaway**, **Progressive**, and **Booking Holdings**, based on strength in performance and to manage overall portfolio balance and weightings. **Applied Materials**, a company we have a high degree of conviction and confidence in with their long-term outlook, experienced continued share price weakness, which gave us the opportunity to add to our position

## Outlook

At the end of the fourth quarter of 2024, we held positions in 26 companies with the ten largest holdings accounting for 55% of total assets. The Fund was trading at approximately 97% of our underlying estimate of intrinsic value, which compares to ~114% for the Index.

Today's market environment warrants caution, in our view. Current valuations are full to overflowing on most traditional metrics, as well as our preferred intrinsic value methodology. In addition, current market expectations

for growth appear robust to us: Consensus expectations for earnings growth for the Index are approximately 15% for 2025. While these estimates are plausible, they are high relative to both recent levels of performance and longer-term normalized rates of growth. While we remained focused on finding new investments that meet our investment criteria, we will do so in the context of a market environment we view as challenged.

To conclude, our companies have executed well and have produced solid growth and fundamental economic performance while maintaining appropriately conservative capital structures. Given the near- and longer-term outlooks provided by the companies in the Fund, we are optimistic that these strong trends will continue and that the differentiated financial attributes will be better recognized by other investors in the future, improving the stock price performance of the Fund relative to the Index over time.

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

### BBH Large Cap Equity Team

Hayley Xuereb, Chris Stonerook, Anurag Dhanwantri, Eric Yeh, Mark Weber, Rohit Mitter, and Scott Hill

| PERFORMANCE (AS OF DECEMBER 31, 2024) |               |        |                              |       |        |                 |
|---------------------------------------|---------------|--------|------------------------------|-------|--------|-----------------|
|                                       | Total returns |        | Average annual total returns |       |        |                 |
|                                       | 3 mo.         | YTD    | 1 yr.                        | 3 yr. | 5 yr.  | Since inception |
| <b>Class I</b>                        | -2.97%        | 15.85% | 15.85%                       | 4.46% | 10.24% | 10.46%          |
| <b>Benchmark</b>                      | 2.41%         | 25.02% | 25.02%                       | 8.94% | 14.53% | 15.51%          |

Class I inception date: 09/09/2019

Class I net/gross expense ratio (%) 0.72 / 0.72

Returns of less than one year are not annualized.

The Investment Adviser has contractually agreed to limit the Total Annual Fund Operating Expenses for Retail Class shares to 0.80% until March 1, 2025. 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%

**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 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

## SHARE CLASS OVERVIEW (AS OF DECEMBER 31, 2024)

|                | ISIN         | Inception date | Total net assets (mil) | NAV     | Upside / Downside capture |
|----------------|--------------|----------------|------------------------|---------|---------------------------|
| <b>Class I</b> | LU0407242659 | 09/09/2019     | \$457.4                | \$15.44 | 89.1% / 103.5%            |

| Equity weighting<br>As of December 31, 2024 |               |
|---|---------------|
| Common stock                                | 98.4%         |
| Cash and cash equivalents                   | 1.6%          |
| Other assets in excess of liabilities       | 0.0%          |
| <b>Total</b>                                | <b>100.0%</b> |

| Sector weighting<br>As of December 31, 2024 |               |
|---|---------------|
| Communication services                      | 8.1%          |
| Consumer discretionary                      | 9.8%          |
| Consumer staples                            | 4.6%          |
| Energy                                      | 0.0%          |
| Financials                                  | 24.1%         |
| Health care                                 | 14.7%         |
| Industrials                                 | 7.9%          |
| Information technology                      | 25.8%         |
| Materials                                   | 5.1%          |
| Real estate                                 | 0.0%          |
| Utilities                                   | 0.0%          |
| <b>Total</b>                                | <b>100.0%</b> |

| Top ten companies<br>As of December 31, 2024 |              |
|--|--------------|
| Alphabet Inc                                 | 8.0%         |
| Microsoft Corp                               | 6.8%         |
| Berkshire Hathaway Inc                       | 6.1%         |
| Mastercard Inc                               | 6.0%         |
| Oracle Corp                                  | 5.9%         |
| Linde PLC                                    | 5.0%         |
| KLA Corp                                     | 4.7%         |
| Costco Wholesale Corp                        | 4.6%         |
| Arthur J Gallagher & Co                      | 4.4%         |
| Amazon.com Inc                               | 4.3%         |
| <b>Total</b>                                 | <b>55.6%</b> |

| Fund facts<br>As of December 31, 2024 |          |
|---------------------------------------|----------|
| Number of securities held             | 26       |
| Average P/E                           | 28.5     |
| Average market cap (bil)              | \$581.00 |
| Turnover (rolling 12-months)          | 8.0%     |

Excludes cash equivalents.

Reported as a percentage of fund securities, excluding cash and cash equivalents.

Reported as a percentage of total holdings.

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.

Free cash flow (FCF) represents the cash that a company generates after accounting for cash outflows to support its operations and maintain its capital assets.

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](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 1000, Denver, CO 80203.

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