

# BBH Intermediate Municipal Bond Fund

Quarterly Fund Update / 2Q 2021

## Retail Therapy

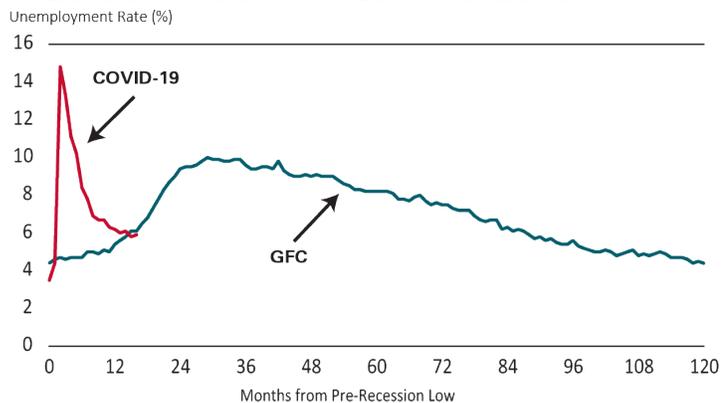
BBH Intermediate Municipal Bond Fund Class I (“the Fund”) had a total return of 0.89% during the second quarter of 2021, compared to a return of 0.90% for the benchmark Bloomberg Barclays 1-15 Year Municipal Index.

The U.S. economy surged during the second quarter, driven by strong capital spending and personal consumption. As our country continues to recover from the pandemic, municipal investors have also opted for a full regimen of retail therapy. The first six months of 2021 have continued where the second half of last year left off – amidst an epic municipal credit rally. Valuations of lower-rated debt now exceed their pre-pandemic levels and investor sentiment remains enthusiastic. Reluctant to sit on cash, investors keep piling into new issues even as the excess yield from credit-sensitive bonds declines further and further. In their fervor to keep up with the Joneses, investors appear to have lost track of the prices they are paying. While chasing trends and following the crowd into low-rated debt might be popular strategies, we pride ourselves on being bargain hunters, and believe conspicuous consumption is at odds with finding good value.

There are many reasons supporting the strong demand for credit-sensitive municipal bonds:

- The most generous fiscal stimulus in the Post-War era
- Hyper-accommodative monetary policy
- Dramatically improved economic backdrop
- Strong consumer balance sheets, flush with savings and gains from stocks and residential real estate
- Growing likelihood for tax increases
- Extra yield, albeit much less

### Exhibit I: A Tale of Two Labor Market Recoveries



Data as of June 30, 2021  
Sources: Bureau of Labor Statistics and BBH Analysis

Performance As of June 30, 2021						
	Total Returns		Average Annual Total Returns			Since Inception
	3 Mo.*	YTD*	1 Yr.	3 Yr.	5 Yr.	
<b>Class I</b>	0.89%	0.24%	2.88%	4.58%	3.48%	3.91%
<b>Class N</b>	0.84%	0.15%	2.69%	4.41%	3.32%	3.77%
<b>Benchmark</b>	0.90%	0.57%	3.08%	4.45%	2.82%	3.37%

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

Class I: Net/Gross Expense Ratio (%) 0.47 / 0.47  
Class N: Net/Gross Expense Ratio (%) 0.65 / 0.71

\* 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 0.47% for Class I shares through March 1, 2022. The Expense Limitation Agreement may only be terminated during its term with approval of the Fund's Board of Trustees (the "Board").

**Performance data quoted represents past performance. Past performance does not guarantee future results and current performance may be lower or higher than the performance data quoted. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their 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 Bloomberg 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

With economic growth estimates of above 6%, the fundamental environment for credit remains very supportive. To put some context around the speed of this economic recovery, the labor market needed 10 years to recover following the Global Financial Crisis (GFC). This cycle, the unemployment rate has retraced 80% of its increase in only 16 months. Real economic output needed 3.5 years to exceed its pre-GFC peak. This time, the U.S. is on target to do so in 1.5 years, a textbook V-shaped recovery. Trillions of dollars of accumulated savings and wealth created over the last eighteen months should help fuel growth for the foreseeable future (see Exhibit I).

The majority of states have now completely erased their pandemic-related losses and are sitting atop a mound of federal aid, courtesy of the American Rescue Plan Act (ARPA) and last year's CARES Act.

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Similar to the national economy, the speed of the bounce-back at the state level represents a drastic shift from that following the GFC, in which most states took several years to fully recover. Personal income taxes, the largest source of state revenues, have served as the backbone of state recoveries, increasing by 3% in calendar year 2020. These funds have helped to offset losses in sales taxes, the next largest revenue source. Sales tax collections declined by 2% in 2020, but have since rebounded, growing for three consecutive quarters. In addition, a large federal infrastructure plan is nearing fruition which would help build revenue-generating projects across the country, as well as subsidize borrowing costs for states.

New Jersey and Illinois have been the largest beneficiaries in the market. We have long held positions in New Jersey and are pleased the state has accelerated its plan to make full pension contributions. Illinois, on the other hand, is still running a structural deficit, excluding Federal stimulus payments. Despite receiving \$8 billion in aid from ARPA, or about 20% of Illinois' pre-pandemic budget, the State still has its hand out, asking for more money. Spreads on both credits compressed significantly as market participants treated them similarly. We must confess to sticker shock when seeing intermediate-maturity Illinois spreads in the 50-60 basis point<sup>1</sup> range, a far cry from their pandemic peak of 450 basis points.

Local government performance has also been strong. Property tax receipts, which comprise about 80% of local government revenues, excluding Federal and State transfers, were up 4% in 2020. The stability provided by property taxes has allowed most local governments to maintain or even increase spending levels in their current budgets. The residential real-estate market has also been red hot, with median home prices appreciating by double digits in many areas, further supporting future revenue growth. Investors have viewed the strong backdrop here as a veritable green light for risk-taking and their resulting shopping spree has pushed spreads to record low levels. For example, 5- to 10-year maturity debt of the Chicago Board of Education, a junk-rated Ba3 / BB credit, ended the quarter with spreads in the 50-basis point range, much tighter than the 160-basis point spread that prevailed before COVID.

There has also been a dramatic recovery in the most heavily impacted revenue bond sectors, airports and mass transit. Last year, air travel virtually stopped during the spring and early summer, but as shown in the exhibit below, the vaccine roll-out has brought travelers back in droves. Although air travel volumes have not yet fully recovered, the trend is clear. Despite improvements to the sector's outlook, we remain cautious given current spread levels. Ten-year maturity high-quality airport spreads have declined to roughly 40 basis points, well below their pre-pandemic average. And remember, most of these bonds are subject to the alternative minimum tax, which typically accounts for about half of that spread (see Exhibit II).

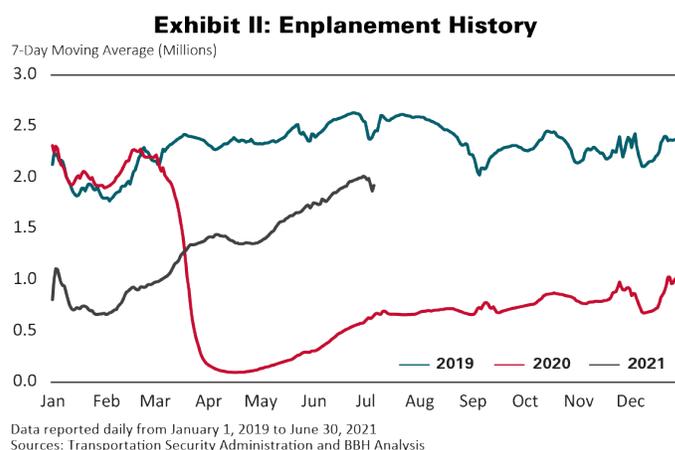
While the data clearly supports investor optimism, we caution that underlying credit fundamentals have become disconnected from market prices, particularly for lower-rated credits. Strong economic growth and accommodative fiscal policy will help alleviate short-term credit concerns for many weaker credits. However, we remain mindful that once the flood of federal money stops, meaningful reforms will be needed.

Despite the ongoing economic recovery and pick-up in inflation, long-maturity municipal yields declined 20 basis points in the second quarter from 1.8% to 1.6%. In contrast, short-to-intermediates remained fairly stable with the 5-year remaining at 0.5% and the 10-year down 5 basis points to 1.0%. Low-rated debt led the way again with Triple-B rated bonds outperforming Single- and Double-A rated municipals by 80 basis points and 150 basis points, respectively.

The challenge this year has been how to keep up with a rapidly rallying credit market while remaining faithful to our approach. Notwithstanding this backdrop, and despite our portfolios' high-quality orientation, we are happy to report that our relative performance rebounded during the second quarter, driven predominantly by security selection. Well-performing highlights included New Jersey appropriation, Oregon, California and Philadelphia school districts, Connecticut Special Tax, and Northshore University Health.

With regard to Fund activity, we spent most of the quarter window shopping, turning down far more potential opportunities than we accepted. As market valuations have become more expensive, we found value in a range of familiar issuers, but in less-traditional bond structures. Our purchases included low-coupon put bonds for McLaren Health Care in Michigan and Medina Valley Independent School District in Texas, delayed-delivery bonds issued by the State of California that are scheduled to settle in September, and short-maturity floaters from the E-470 Highway in Colorado and the MTA in New York. We also added low-coupon debt of the Port Authority of New York and New Jersey and zero-coupon bonds guaranteed by the city of Memphis. These opportunities were all "on sale," relative to comparable, more traditional, 5% fixed-rate debt by the same issuers.

We recognize the abundance of support for muni credit, but we are also sensitive that broad market valuations already reflect the good news and it gives us little comfort to participate in new issues that wind up being 10-to-15 times oversubscribed. The muni market remains gripped by a dearth



<sup>1</sup> One "basis point" or "bp" is 1/100th of a percent (0.01% or 0.0001).

of tax-exempt supply. Although total supply is running at an annual pace of just over \$400 billion, taxable bonds have comprised roughly one-third of this. Muni supply is likely to remain bottlenecked until tax-exempt advanced refundings are restored. At \$300 billion, today's pace of tax-exempt municipal issuance can barely satisfy reinvestment demand. With close to \$100 billion of new capital flowing into municipal funds over the last twelve months, investors have been challenged to stay fully invested and market liquidity has suffered as a result. Thus far in 2021, average daily trading volumes are the lowest in over 15 years.

The Biden Administration has made tax reform a key policy initiative. The American Families Plan along with the American Jobs Plan call for restoring the top individual tax rate to 39.6%, raising the capital gain tax rate for those with incomes over \$1 million, increasing the corporate tax, and potentially eliminating the State and Local Tax (SALT) Deduction cap. These policies, if implemented, should continue to support municipal bond demand. Unfortunately, bringing back tax-exempt advanced refundings does not appear to be a current priority. We continue to assess the numerous tax plans working their way through Congress, especially those which will impact the municipal bond market.

Against the backdrop of today's strong economic performance, last year's concern that states could see up to \$400 billion in revenue losses feels like a distant memory. Our conservative underwriting standards neither relied on, nor anticipated, the \$5 trillion in aggregate federal aid, a successful vaccine rollout in under a year, or the fastest economic growth in over thirty years. We consider our country to be fortunate as we have emerged from the pandemic so quickly. The range of potential outcomes last year was wide, with downside risks not seen in generations. Other nations are experiencing much more severe impacts. While others may speculate on positive outcomes, such as from economic rebounds or government bailouts, we focus on owning a portfolio of durable credits that possess resilience to unexpected challenges -- we never want to find ourselves experiencing buyer's remorse. As many stores struggled to keep paper towels, wipes and hand sanitizer in stock last spring, high-quality municipal bond opportunities were widespread. Now, shoppers can have all the paper products they like, but finding attractive municipal bonds has become mighty tough. There are no free returns in the municipal market, so it is best to avoid impulse purchases and stay selective.

Sincerely,



Gregory S. Steier  
Fund Manager



**REFINITIV LIPPER  
FUND AWARDS**

2021 WINNER  
UNITED STATES

The **BBH Intermediate Municipal Bond Fund (BBIX)** was named the Best Intermediate Municipal Debt Fund over five years, for the period ended December 31, 2020. The Fund was assessed against 55 other funds in this category.

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Other share classes may have different performance characteristics.

Share Class Overview  
As of June 30, 2021

	Overall Morningstar Rating™*	Ticker	CUSIP	Inception Date	Total Net Assets (mil)	NAV	30-Day SEC Yield** (Subsidized)	30-Day SEC Yield** (Unsubsidized)
<b>Class I</b>	★★★★	BBIX	05528C824	04/01/2014	\$780.2	\$11.02	0.63%	0.63%
<b>Class N</b>	★★★	BBINX	05528C816	04/01/2014	\$102.5	\$11.03	0.43%	0.40%

\* 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 254 funds in the Muni National Intern category Overall Rating as of 6/30/2021.

\*\* 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 June 30, 2021	
Cash and Cash Equivalents	4.8%
AAA	26.8%
AA	43.4%
A	19.8%
BBB	4.8%
BB	0.0%
B or Lower	0.0%
Not Rated	0.3%
<b>Total</b>	<b>100.0%</b>

Reported as a percentage of portfolio securities.

Top 10 Holdings / Coupon / Maturity As of June 30, 2021				
Texas Department of Housing and Community Affairs	2.835%	09/01/2047	1.5%	
State of Massachusetts	0.668%	11/01/2025	1.50%	
Texas Municipal Gas Acquisition & Supply Corp I	0.780%	12/15/2026	1.4%	
State of Maryland	5.000%	03/15/2025	1.4%	
North Dakota Housing Finance Agency	3.000%	07/01/2051	1.3%	
Northern California Gas Authority No 1 Gas Project	0.817%	07/01/2027	1.2%	
New Jersey Transportation Trust Fund Authority	5.000%	06/15/2030	1.0%	
Conroe Independent School District	5.000%	02/15/2027	0.9%	
Virginia College Building Authority Educational Facilities Public Higher Education	5.000%	09/01/2027	0.9%	
Pennsylvania Public School Building Authority Lease Revenue	5.000%	06/01/2033	0.9%	
<b>Total</b>			<b>12.20%</b>	

Reported as a percentage of total portfolio.

Sector Distribution As of June 30, 2021	
General Obligations	34.2%
Pre-Refunded	2.0%
Revenue	63.8%
<b>Total</b>	<b>100.0%</b>

Reported as a percentage of portfolio securities.

Fund Facts As of June 30, 2021	
Number of Holdings	342
Number of Issuers Held	135
Effective Duration (years)	4.36
Yield to Maturity	1.06%
Yield to Worst	0.92%

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. Absent a rating from these agencies, we may display Private Credit Ratings, if permitted by the issuer, which could include ratings from Egan-Jones Ratings Co. 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 Maturity is before fees and expenses.

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.

**This material is not authorized for distribution unless accompanied or preceded by a current Fund prospectus.**

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.

Investors in the Fund should be able to withstand short-term fluctuations in the 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.

Investing in the bond market is subject to certain risks including market, interest-rate, issuer, credit, maturity, call 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.

As the Fund's exposure in any one municipal revenue sector backed by revenues from similar types of projects increases, the Fund will also become more sensitive to adverse economic, business or political developments relevant to these projects.

Asset allocation decisions, particularly large redemptions, made by an investment adviser whose discretionary clients make up a large percentage of the Fund's shareholders may adversely impact remaining Fund shareholders.

**For more complete information, visit [www.bbhfund.com](http://www.bbhfund.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 1000, Denver, CO 80203.

Brown Brothers Harriman & Co. ("BBH"), a New York limited partnership, was founded in 1818 and provides investment advice to registered mutual funds through a separately identifiable department (the "SID"). The SID is registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. BBH acts as the Fund Administrator and is located at 140 Broadway, New York, NY 10005.

The Refinitiv Lipper Fund Awards, granted annually, highlight funds and fund companies that have excelled in delivering consistently strong risk-adjusted performance relative to their peers. The Refinitiv Lipper Fund Awards are based on the Lipper Leader for Consistent Return rating, which is a risk-adjusted performance measure calculated over 36, 60 and 120 months. The fund with the highest Lipper Leader for Consistent Return (Effective Return) value in each eligible classification wins the Refinitiv Lipper Fund Award. For more information, see [lipperfundawards.com](http://lipperfundawards.com). Although Refinitiv Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Refinitiv Lipper. The BBH Intermediate Municipal Bond Fund (Class I) competed with 55 portfolios in the Intermediate Municipal Debt Funds category for the five-year period ending 12/31/2020. Lipper Fund Awards are based on the Institutional Class shares. Other share classes may have different performance characteristics. Past performance does not guarantee future results.

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**Not FDIC Insured**

**No Bank Guarantee**

**May Lose Money**

**BBH Fund Information Service: (800) 625-5759**

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Exp. Date 10/31/2021