

# BBH Core Fixed Income

Strategy Fact Sheet / 3Q 2016

## PRINCIPAL STRATEGY AND OBJECTIVES

We seek to design our separately managed fixed income portfolios to deliver competitive results relative to standard industry benchmarks. BBH employs a collaborative, team-based approach. Our independent research serves as the foundation of our bottom-up investment process. We only invest in credits we believe to be durable, well-managed, appropriately structured, and transparent. We apply a proprietary quantitative framework to help assess each security's valuation and its long-term return potential. When opportunities to purchase securities that meet both our credit and valuation criteria are not available, we own Treasuries or other liquid reserves.

## INVESTMENT CRITERIA

BBH Investment Management (IM) applies a disciplined investment selection process focused on the following attributes:

- The Strategy expects to invest across many sectors, but will typically hold corporate debt, asset-backed securities, commercial mortgage-backed securities, agency mortgage-backed securities, and select municipal obligations.
- The Strategy seeks durable Credits<sup>1</sup> that are attractively priced. When durable and attractively-priced credits are not available, the Strategy will invest in Treasury and cash instruments while seeking new opportunities.
- An attractive price is one that not only offers appropriate compensation for liquidity, credit, prepayment, or extension risks, but also provides additional compensation for the likelihood of additional excess returns over time.
- Durable Credits typically share the following characteristics:
  - Are able to withstand a wide variety of economic scenarios.
  - Enjoy strong market position and/or proprietary products and/or have recourse to independently valuable collateral.
  - Provide transparency to investors.
  - Have a strong management team with a track record, a balanced approach towards creditors and equity investors and an alignment of interests with investors.
  - Maintain leverage and structure that is appropriate through business cycles.

<sup>1</sup> Obligations such as bonds, notes, loans, leases and other forms of indebtedness, except for Cash and Cash Equivalents, issued by obligors other than the U.S. Government and its agencies, totaled at the level of the ultimate obligor or guarantor of the Obligation.

## PORTFOLIO CO-MANAGERS



### Andrew P. Hofer

Mr. Hofer is head of Taxable Fixed Income. He joined Investment Management in 1998 as Head of Insurance Asset Management, and from 2003-2006 was Investment Management's Chief Operating Officer and Head of Risk Management. Mr. Hofer earned a BA in East Asian studies from Yale, and an MIA (Master of International Affairs) from Columbia University.



### Neil Hohmann, PhD

Mr. Hohmann has directed BBH's structured products strategy and credit research since 2007. He is also involved in the management of BBH's fixed income positions in financial companies. Mr. Hohmann graduated Magna Cum Laude with Distinction from Yale University and earned his PhD in Economics from the University of Chicago.

## PRINCIPLES OF FIXED INCOME INVESTING

- **Investment Objective<sup>2</sup>:** The Strategy seeks to provide maximum total return, consistent with preservation of capital and prudent investment management.
- **Emphasis on Capital Preservation:** The Strategy will seek to maintain a high quality bias through the purchase of securities where our own independent analysis suggests a very low probability of any interruption in the timely payment of interest or principal.
- **Diversification:** The Strategy will typically hold 75 to 150 Credits, with most positions accounting for 0.5% to 1.5% of the portfolio's market value. Our highest conviction holdings may be up to 3.0% of the portfolio's value at purchase.
- **Liquidity:** The Strategy seeks to only own Credits that are readily marketable.
- **Long-term Perspective:** Many investment strategies are built around short-term expectations, momentum following and frequent trading. We believe that a longer-term view of both companies and investments leads to stronger results and risk control over market cycles.

<sup>2</sup> There can be no assurance that the Strategy will achieve its investment objectives.

**Performance**  
As of September 30, 2016

**Total Returns** **Average Annual Total Returns**

| Composite/Benchmark                                    | Total Returns |       | Average Annual Total Returns |       |       |        | Since Inception |
|--|---------------|-------|------------------------------|-------|-------|--------|-----------------|
|  | 3 Mo.*        | YTD*  | 1 Yr.                        | 3 Yr. | 5 Yr. | 10 Yr. |                 |
| <b>BBH Core Fixed Income Composite (Gross of Fees)</b> | 2.49%         | 6.74% | 6.01%                        | 4.86% | 4.34% | 5.11%  | 6.93%           |
| <b>BBH Core Fixed Income Composite (Net of Fees)</b>   | 2.42%         | 6.54% | 5.75%                        | 4.59% | 4.08% | 4.85%  | 6.67%           |
| <b>Barclays Capital US Aggregate Bond Index</b>        | 0.46%         | 5.80% | 5.19%                        | 4.03% | 3.08% | 4.79%  | 6.77%           |

\* Returns are not annualized.

Sources: BBH & Co. and Barclays Capital

**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.**

**Representative Account**  
**Credit Quality**  
As of September 30, 2016

|                           | Representative Account | Barclays Capital US Aggregate Bond |
|---------------------------|------------------------|------------------------------------|
| Cash and Cash Equivalents | 0.2%                   | 0.0%                               |
| AAA                       | 22.1%                  | 70.6%                              |
| AA                        | 5.5%                   | 4.8%                               |
| A                         | 24.9%                  | 10.9%                              |
| BBB                       | 36.1%                  | 13.8%                              |
| BB or Lower               | 9.2%                   | 0.0%                               |
| Not Rated                 | 1.9%                   | 0.0%                               |
| <b>Total</b>              | <b>100.0%</b>          | <b>100.0%</b>                      |

**Representative Account**  
**Sector Distribution**  
As of September 30, 2016

|                                       | Representative Account | Barclays Capital US Aggregate Bond |
|---------------------------------------|------------------------|------------------------------------|
| Cash                                  | 0.2%                   | 0.0%                               |
| U.S. Treasuries                       | 21.4%                  | 36.3%                              |
| U.S. Inflation-Indexed Securities     | 0.0%                   | 0.0%                               |
| Government-Related                    | 0.0%                   | 8.0%                               |
| Mortgage-Backed Securities            | 0.0%                   | 27.8%                              |
| Corporate Securities                  | 20.4%                  | 25.8%                              |
| Commercial Mortgage-Backed Securities | 23.3%                  | 1.7%                               |
| Asset-Backed Securities               | 26.0%                  | 0.5%                               |
| Municipal Securities                  | 8.7%                   | 0.0%                               |
| <b>Total</b>                          | <b>100.0%</b>          | <b>100.0%</b>                      |

**Representative Account**  
**Duration Distribution**  
As of September 30, 2016

|              | Representative Account | Barclays Capital US Aggregate Bond |
|--------------|------------------------|------------------------------------|
| 0 - 2 Yrs.   | 35.1%                  | 20.7%                              |
| 2 - 4 Yrs.   | 19.0%                  | 36.5%                              |
| 4 - 6 Yrs.   | 15.9%                  | 14.2%                              |
| 6 - 8 Yrs.   | 13.5%                  | 9.9%                               |
| 8 - 12 Yrs.  | 4.7%                   | 5.3%                               |
| 12 - 17 Yrs. | 6.7%                   | 7.3%                               |
| 17+ Yrs.     | 5.1%                   | 6.0%                               |
| <b>Total</b> | <b>100.0%</b>          | <b>100.0%</b>                      |

**Representative Account**  
**Top 10 Credits**  
As of September 30, 2016

|  |              |
|--|--------------|
| OneMain Financial Issuance Trust           | 2.8%         |
| Drawbridge Special Opportunities Fund LP   | 2.5%         |
| City of Houston TX Airport System Revenue  | 2.4%         |
| STORE Master Funding LLC                   | 2.4%         |
| TransAlta Corp                             | 2.2%         |
| PennantPark Investment Corp                | 2.1%         |
| Spirit Master Funding, LLC                 | 2.1%         |
| CG-CCRE Commercial Mortgage Trust 2014-FL2 | 2.1%         |
| BLCP 2014-CLRN                             | 2.1%         |
| Trapeza CDO LLC                            | 1.8%         |
| <b>Total</b>                               | <b>22.5%</b> |

**Representative Account**  
**Portfolio Characteristics**  
As of September 30, 2016

|                            | Representative Account | Barclays Capital US Aggregate Bond |
|----------------------------|------------------------|------------------------------------|
| Effective Duration (years) | 5.10                   | 5.42                               |
| Yield to Maturity          | 4.41%                  | 1.96%                              |

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.

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.

Holdings are subject to change. Totals may not sum due to rounding.

Effective duration is a measure of the portfolio's return sensitivity to changes in interest rates.

Credits: Obligations such as bonds, notes, loans, leases and other forms of indebtedness, except for Cash and Cash Equivalents, issued by obligors other than the U.S. Government and its agencies, totaled at the level of the ultimate obligor or guarantor of the Obligation.

Data presented is that of a single representative account ("Representative Account") that invests in the strategy. It is the account whose investment guidelines allow the greatest flexibility to express active management positions. It is managed with the same investment objectives and employs substantially the same investment philosophy and processes as the proposed investment strategy.

For purpose of complying with the GIPS® standards, the firm is defined as Brown Brothers Harriman Investment Management ("IM"). IM is a division of Brown Brothers Harriman & Co. ("BBH"). IM claims compliance with the Global Investment Performance Standards (GIPS®). To receive a list of composite descriptions of IM and/or a presentation that complies with the GIPS standards, contact John W. Ackler at (212) 493-8247, or via email at john.ackler@bbh.com.

Gross of fee performance results for this composite do not reflect the deduction of investment advisory fees. Actual returns will be reduced by such fees. "Net" of fees performance results reflect the deduction of the maximum investment advisory fees. Performance calculated in U.S. dollars.

The Composite is comprised of fully discretionary, fee-paying core fixed income accounts over \$10 million that are managed to a duration of approximately 4.5 years and are invested in a broad range of taxable bonds. Accounts are benchmarked to the Barclays Capital U.S. Aggregate Bond Index or equivalent. Historically to December 31, 2000 the account minimum was \$5 million. The Barclays Capital U.S. Aggregate Bond Index is comprised of dollar-denominated investment grade fixed income securities with maturities of at least one year.

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