

# BBH Core Select - U.S. Large Cap

## Monthly Strategy Update / August 2019

In August 2019, BBH Core Select Composite (“Core Select” or “the Strategy”) rose by 0.40%, which compared to a loss of -1.58% for the S&P 500 Index. One of our top performers in the month was Dollar General and our largest detractor was Oracle. We exited our position in PayPal Holdings and initiated new positions in A.O. Smith, a leading global provider of water heating and treatment products as well as boilers and related products; and Booking Holdings, the world’s largest online travel agency, which operates several well-known transactional websites.

Dollar General reported strong Q2 earnings results in a competitive retail environment. Revenue grew by 8.4%, led by same-store sales growth of 4.0% that was driven by increases in both the average transaction size and traffic growth. We believe these strong top line results demonstrate Dollar General’s value proposition to its core consumer and its ability to take market share. Operating profit grew 11.6% (excluding certain legal expenses), highlighting the company’s capacity to invest in the business while still leveraging its cost base. Investors reacted positively to the strong headline results, higher full-year financial guidance despite potential tariff headwinds, positive updates on margin-enhancing initiatives, and continued execution on the strategy to open stores in predominantly rural areas to meet the everyday needs of lower-income consumers. Overall, we believe the quarter’s strong results demonstrate the company’s competitive advantages and leadership position in the industry.

Weakness in Oracle shares did not appear company-specific, noting the broader pressure on technology stocks generally. Our view remains that Oracle is positioned well to grow core database revenue through innovation, including bringing clients to its new Autonomous Database (ADB) platform, which is a differentiated solution that addresses several pain points for administrators. ADB requires that customers purchase two incremental add-ons, increasing Oracle’s share of the customer’s wallet while supporting high switching costs given the high-severity nature of the data security problems it solves. Oracle also continues to have a solid capital allocation plan in place having retired 25% of its shares over the last five years. In our view, this was a productive capital allocation decision that supports our assessment of Oracle’s management team as being not only qualified software executives, but also thoughtful capital allocators.

Performance								
	Total Returns			Average Annual Total Returns				
As of 08/31/2019	1 Mo.*	3 Mo.*	YTD*	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception
<b>BBH Core Select Composite (Gross of Fees)</b>	0.40%	8.47%	21.63%	10.06%	11.92%	8.65%	12.93%	10.27%
<b>BBH Core Select Composite (Net of Fees)</b>	0.32%	8.20%	20.84%	8.98%	10.82%	7.58%	11.82%	9.19%
<b>S&amp;P 500</b>	-1.58%	6.87%	18.34%	2.92%	12.70%	10.11%	13.45%	8.69%
As of 06/30/2019	1 Mo.*	3 Mo.*	YTD*	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception
<b>BBH Core Select Composite (Gross of Fees)</b>	6.59%	7.03%	19.52%	14.34%	12.56%	8.45%	13.93%	10.26%
<b>BBH Core Select Composite (Net of Fees)</b>	6.51%	6.77%	18.95%	13.22%	11.45%	7.38%	12.81%	9.18%
<b>S&amp;P 500</b>	7.05%	4.30%	18.54%	10.42%	14.19%	10.71%	14.70%	8.81%

\* Returns are not annualized.

Sources: BBH & Co. and S&P

**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.**

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 strategy’s holdings. The index is not available for direct investment.

Representative Account Equity Weighting As of August 31, 2019	
Common Stock	98.3%
Cash and Cash Equivalents	1.7%
<b>Total</b>	<b>100.0%</b>

Representative Account Portfolio Characteristics As of August 31, 2019	
Composite Assets (mil)	\$2,637.3
Number of Securities Held	30
Average P/E	22.4
Average Market Cap (bil)	\$120.8
Turnover (Rolling 12-Months)	23.01%
Exclude cash equivalents	

Composite Risk Statistics As of August 31, 2019	
Beta	0.78
Alpha	2.46%
Tracking Error	4.95%
Upside / Downside Capture	86.5% / 79.3%
Risk statistics are reported gross of fees and are based on trailing 60 months	

Representative Account Sector Weighting As of August 31, 2019	
Communication Services	13.4%
Consumer Discretionary	5.0%
Consumer Staples	15.2%
Energy	0.0%
Financials	14.4%
Health Care	15.3%
Industrials	11.8%
Information Technology	18.2%
Materials	6.6%
Real Estate	0.0%
Utilities	0.0%
<b>Total</b>	<b>100.0%</b>
Reported as a percentage of portfolio securities.	

Representative Account Top 10 Companies As of August 31, 2019	
Alphabet Inc	7.0%
Oracle Corp	6.4%
Berkshire Hathaway Inc	6.3%
Comcast Corp	6.1%
US Bancorp	5.1%
FleetCor Technologies Inc	4.7%
Copart Inc	4.5%
Zoetis Inc	4.5%
Novartis AG	4.1%
Diageo Plc	3.5%
<b>Total</b>	<b>52.3%</b>
Reported as a percentage of total portfolio.	

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. Contribution figures are presented gross of fees and do not include cash and cash equivalents. 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

The strategy may assume large positions in a small number of issuers which can increase the potential for greater price fluctuation.

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 Craig Schwalb at (212) 493-7217, or via email at [craig.schwalb@bbh.com](mailto:craig.schwalb@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. Time Weighted Rate of Return is used to determine performance of a portfolio in a Composite. A portfolio's rate of return is the percentage change from the beginning balance to the ending balance of the period. Capital changes as well as dividends and other income earned during a period are included in the ending balance. Any reinvestment of dividends or other income will be reflected in the beginning balance of the following period. Sub-periods returns are linked to calculate a portfolio return for the period. Performance calculated in U.S. dollars.

The Composite is a fully discretionary, fee-paying accounts over \$5 million that invest in a portfolio of approximately 25-35 companies with market capitalizations greater than \$5 billion that are headquartered in North America, as well as in certain global firms located in other developed regions. This strategy is benchmarked to the S&P 500 Index.

Brown Brothers Harriman & Co. ("BBH") may be used as a generic term to reference the company as a whole and/or its various subsidiaries generally. This material and any products or services may be issued or provided in multiple jurisdictions by duly authorized and regulated subsidiaries. This material is for general information and reference purposes only and does not constitute legal, tax or investment advice and is not intended as an offer to sell, or a solicitation to buy securities, services or investment products. Any reference to tax matters is not intended to be used, and may not be used, for purposes of avoiding penalties under the U.S. Internal Revenue Code, or other applicable tax regimes, or for promotion, marketing or recommendation to third parties. All information has been obtained from sources believed to be reliable, but accuracy is not guaranteed, and reliance should not be placed on the information presented. This material may not be reproduced, copied or transmitted, or any of the content disclosed to third parties, without the permission of BBH. All trademarks and service marks included are the property of BBH or their respective owners. © Brown Brothers Harriman & Co. 2019. All rights reserved.

**Not FDIC Insured**

**No Bank Guarantee**

**May Lose Money**

IM-06842-2019-09-13

Exp. Date 10/31/2019