

## CAPITAL PARTNERS

# BBH Luxembourg Funds - BBH Core Select

## Quarterly Update | 1Q 2025

### Highlights

- During the first quarter of 2025, most portfolio companies in the BBH Luxembourg Core Select Fund (the Fund) reported fourth quarter 2024 results and provided near- and longer-term guidance.
- Overall results were mixed, with strong growth in earnings contrasting with modest declines in free cash flow generation. The financial results of the portfolio 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 portfolio companies in the Fund as increasingly cautiously near term and highly confident medium to longer term.
- The absolute stock price driven total returns of the Fund has been solid, indeed very much in-line with expected economic profit growth and current income generation levels we model at normalized levels. On a total return basis, the Fund lost 0.64% in the first quarter of 2025, while the Index decreased 4.27%.
- We remain pleased with the year-to-date fundamental performance of our portfolio, 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 our portfolio companies 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

We entered calendar year 2025 with a high degree of caution. The S&P 500 had just come off its second consecutive year of approximate 25% returns while earnings and free cash flow per share growth were essentially flat over the two-year period. Valuations were full to overflowing and expectations for earnings growth were high, both on an absolute basis and relative to near- and longer-term history, while internal market structure was undergoing a period of dramatic change.

More specifically, at the beginning of the year we viewed the S&P 500 to be overvalued by between 10-15% on our favored intrinsic value basis and trading among the very highest observed levels of price-to-earnings and many

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other valuation metrics. Equally concerning to us at the time was the fact that expectations for earnings and free cash flow growth in 2025 approximated 15%. While these levels of fundamental performance were plausible, they appeared highly optimistic in our view as they represented multiples of longer-term averages and the recent two-year period of no growth in economic profits. In addition, market structure was experiencing a period of dramatic change, transitioning from a period of very concentrated large cap technology dominance over the past two-year period to one that had more breadth but that was driven by an historic low-quality rally that started late in the third quarter of 2024 and lasted for the balance of the year.

The first quarter of 2025 saw a decline of almost 5% for the U.S. equity market, as the threat of widespread tariffs began to dampen the growth outlook and create more uncertainty. The Index started the quarter up but finished on a down note, lagging its global counterparts amid uncertainty about the economy, competition in the artificial intelligence (AI) space, and questions about the impact of tariffs under the new presidential administration. The largest detractor (-405 basis points [bps])<sup>1</sup> to total return was the broader information technology sector, where large constituents and other AI-related stocks took a hit following news that a Chinese company, DeepSeek, developed an AI model with much less investment than some U.S. companies developing AI tools.

Following a 57.8% total return over the prior two years, the Index corrected more than 10% in the latter half of first quarter 2025, leading to its worst quarterly performance (-4.3%) since third quarter 2022. Strength was found in the more defensive sectors, with healthcare (+0.6%), financials (+0.5%) and consumer staples (+0.4%) offering the largest, albeit modest, contribution to total return. In aggregate, information technology and consumer discretionary detracted almost 506 bps to total return, reflecting a market that began 2025 with improved breadth and strong momentum, driven by pro-business and economic growth policy expectations and advancements in artificial intelligence, ended with a policy-induced growth scare centered on tariffs and the reshaping of global institutions and relationships by the Trump administration.

## Portfolio Commentary

As we discussed in our last update, the financial results of our portfolio companies were strong on an absolute basis, with net earnings and free cash flow per share growing 19.3% and 18.3%, respectively, during calendar year 2024. 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 multiyear period of fundamental outperformance. To that end, our portfolio 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 portfolio level, where we have observed attractive growth in revenue, cash flow, and earnings, superior profit margins, returns on capital, and healthy balance sheets.

### 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
Fund	18.3%	18.9%	10.5%	12.6%	9.8%
S&P 500	4.3%	-3.1%	5.2%	5.7%	5.1%
S&P 500 equal weighted	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
Fund	19.3%	15.0%	16.3%	15.9%	10.9%
S&P 500	8.3%	-1.4%	16.7%	8.0%	6.7%
S&P 500 equal weighted	2.5%	1.9%	22.8%	8.1%	7.6%

*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.

During the period of recent market stress, we have been active with an aim to improve an already high-quality portfolio to one possessing higher expected levels of economic profit growth and better valuation support. While this work will continue and is a constant focus of our analytical and portfolio management activities, we expect it to slow near-term given the sharp recovery in market prices and still-elevated levels of policy-induced risk. Specifically, we have and will continue to trim and sell portfolio 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 portfolio companies that meet our investment criteria and may add to existing portfolio 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.

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.

### Portfolio 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 ~3.5%, reflecting our caution with high market expectations, but also appreciating the opportunity with pockets of valuation support.

We trimmed positions in **Berkshire Hathaway, Progressive, Abbott Labs, Costco, and A.J. Gallagher**, based on strength in performance and to manage overall portfolio balance and weightings. **Eli Lilly**, 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 initiate a position. Another company we bought was **Procter & Gamble**, which over the last several years has divested dozens of brands, exited categories, and refocused the business on frequently used products that consumers primarily evaluate on performance. The company's new strategy has been a remarkable success. Net of divestitures, the company's sales have grown

### HOLDINGS (AS OF 31 MARCH 2025)

Holding	Sector	Weight (%)
Alphabet Inc (Class C)	Communication Services	6.91
Mastercard Inc	Financials	6.62
Microsoft Corp	Information Technology	6.62
Linde PLC	Materials	5.94
KLA Corp	Information Technology	5.31
Oracle Corp	Information Technology	5.10
Waste Management Inc	Industrials	5.04
Amazon.com Inc	Consumer Discretionary	4.73
Alcon Inc	Health Care	4.41
Costco Wholesale Corp	Consumer Staples	3.95
Arthur J Gallagher & Co	Financials	3.71
Booking Holdings Inc	Consumer Discretionary	3.64
S&P Global Inc	Financials	3.39
Zoetis Inc	Health Care	3.30
Automatic Data Processing Inc	Industrials	3.08
Thermo Fisher Scientific Inc	Health Care	2.93
Adobe Inc	Information Technology	2.92
Progressive Corp	Financials	2.69
Texas Instruments Inc	Information Technology	2.58
Berkshire Hathaway Inc (Class A)	Financials	2.31
Abbott Laboratories	Health Care	2.27
UnitedHealth Group Inc	Health Care	2.12
Otis Worldwide Corp	Industrials	2.03
Cadence Design Systems Inc	Information Technology	1.89
Applied Materials Inc	Information Technology	1.76
NIKE Inc (Class B)	Consumer Discretionary	1.52
Procter & Gamble Co	Consumer Staples	1.51
Eli Lilly & Co	Health Care	1.27
Cash & Cash Equivalents		0.44

Holdings are subject to change.

mid-to-high single digits since 2017, which compares favorably to most consumer staples peers.

## **Outlook**

At the end of the first quarter of 2025, we held positions in 28 companies with the ten largest holdings accounting for 54% of total assets. The Fund was trading at ~97% of our underlying estimate of intrinsic value, which compares to ~114% for the Index.

In our view, today's market environment warrants caution, and, after making opportunistic adjustments, we argue against being more aggressive and instead waiting for further correction in market prices and future expectations 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.

Specifically, with a backdrop of decelerating economic growth, extreme policy uncertainty and geopolitical risk, and still-high market expectations relative to history, we remain focused and committed to investing in companies that meet our qualitative criteria, have the fundamental financial characteristics in place that allow for durability in times of economic and market stress, and offer valuation support.

To conclude, our portfolio companies have executed well and have produced solid growth and fundamental economic performance while maintaining appropriately conservative capital structures. Given the near- and long-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 Luxembourg Core Select 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** | Past performance does not predict future results

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
<b>Class I</b>	14.83%	22.71%	-21.33%	26.19%	12.17%	28.81%	-7.75%	18.76%	7.65%	-3.24%
<b>Class R[i]</b>	14.83%	22.71%	-21.33%	26.24%	12.18%	28.80%	-7.75%	18.73%	7.65%	-3.24%
<b>Class X</b>	14.19%	22.04%	-21.76%	25.54%	11.56%	28.09%	-8.25%	18.11%	7.06%	-3.77%
<b>S&amp;P 500</b>	25.02%	26.29%	-18.11%	28.71%	18.40%	31.49%	-4.38%	21.83%	11.96%	1.38%

As of 31/03/2025	Total returns		Average annual total returns				
	3 mo.	YTD	1 yr.	3 yr.	5 yr.	10 yr.	Since inception
<b>Class I</b>	-0.64%	-0.64%	5.06%	6.19%	14.25%	8.79%	11.23%
<b>Class R[i]</b>	-0.64%	-0.64%	5.06%	6.19%	14.26%	8.79%	10.10%
<b>Class X</b>	-0.77%	-0.77%	4.48%	5.61%	13.63%	8.20%	9.39%
<b>S&amp;P 500</b>	-4.27%	-4.27%	8.25%	9.06%	18.59%	12.50%	13.98%

Class I Inception: 28/01/2009

Class R[i] Inception: 21/10/2011

Class X Inception: 10/07/2012

Class I and Class R[i] ongoing charges: 1.15%

Class X ongoing charges: 1.70%

Returns of less than one year are not annualized.

The past performance excludes the entry and exit charges. This figure may vary from year to year. It excludes portfolio transaction costs. The entry charge is 5% of the initial price or subscription price. Fund shares redeemed within 30 days of purchase may be subject to an exit charge of 2%. The entry and exit charges shown are maximum figures. In some cases you may pay less. Past Performance has been calculated in USD. Performance can be increased or reduced as a result of currency fluctuations.

Classes I, R[i], and X Shares are accumulating Classes of Shares and, as such, have no distributions. Any income will automatically be included in the value of your investment.

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 31 MARCH 2025)

	ISIN	Inception date	Total net assets (mil)	NAV	Upside / Downside capture <sup>1</sup>
<b>Class I</b>	LU0407242659	28/01/2009	\$289.3	\$56.41	89.0% / 103.4%
<b>Class R[i]</b>	LU0527403801	21/10/2011	\$19.7	\$36.65	89.0% / 103.4%
<b>Class X</b>	LU0643341406	10/07/2012	\$2.6	\$31.39	

<sup>1</sup> Upside / Downside capture ratio is an annualized 5-year rate, net of fees. Both compare an investment's performance against its benchmark during periods when the benchmark's performance is positive or negative.

### Equity weighting

#### As of 31 March 2025

Common stock	99.6%
Cash and cash equivalents	0.5%
Other assets in excess of liabilities	-0.1%
<b>Total</b>	<b>100.0%</b>

### Fund facts

#### As of 31 March 2025

Total net assets (mil)	\$311.6
Number of securities held	28
Average P/E	27.1
Average market cap (bil)	\$523.2

Excludes cash equivalents.

### Sector weighting

#### As of 31 March 2025

Communication Services	6.9%
Consumer Discretionary	9.9%
Consumer Staples	5.5%
Energy	0.0%
Financials	18.8%
Health Care	16.4%
Industrials	10.2%
Information Technology	26.3%
Materials	6.0%
Real Estate	0.0%
Utilities	0.0%
<b>Total</b>	<b>100.0%</b>

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

### Top 10 companies

#### As of 31 March 2025

Alphabet Inc	6.9%
Mastercard Inc	6.6%
Microsoft Corp	6.6%
Linde PLC	5.9%
KLA Corp	5.3%
Oracle Corp	5.1%
Waste Management Inc	5.0%
Amazon.com Inc	4.7%
Alcon AG	4.4%
Costco Wholesale Corp	4.0%
<b>Total</b>	<b>54.5%</b>

Reported as a percentage of total portfolio.

An investment is in shares of the fund and not in any underlying investment owned by the fund.

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.

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.

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The composition of the index is materially different than the Fund's holdings. The Fund is actively managed and does not measure its performance success or alter its construction in relation to any particular benchmark or index. The index is not available for direct investment.

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### **For Prospective Investors Domiciled in Luxembourg:**

**The Company's address in Luxembourg is 6, route de Trève, L-2633 Senningerberg, Grand Duchy of Luxembourg (Tel.: +1-800-625-5759).**

### **For Prospective Investors Domiciled in the UK:**

**The Fund is duly registered with the UK Financial Conduct Authority. The representative agent of the Fund in the UK is BBH ISL Tel: +44-207-614-2113.**

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**The Fund is duly registered with the German Federal Financial Supervisory Authority, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). The representative agent of the Fund in Germany is Société Générale (Dejan Djurdjevi - Tel.: +49 (0) 69 7174 497).**

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Additional information regarding the Fund including investment positions is available upon request.

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The value of a security may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods or services.

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.

Non-U.S. investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards.

**Complete information on the Fund's risks and expenses can be found in the prospectus, which you should read carefully before investing.**

The decision to invest in the fund should take into account all the characteristics or objectives of the fund as described in its prospectus.



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