

# BBH Luxembourg Funds - BBH Core Select

## Quarterly Fund Update / 3Q 2024

### 3Q Highlights

- During the 3rd quarter of 2024, most portfolio companies in the BBH Luxembourg Fund – BBH Core Select Class I (“the Fund”) reported 2nd quarter 2024 results and provided near and longer-term guidance.
  - 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.
- During the quarter, market breadth significantly increased beyond mega-cap technology companies, with stock price performance being heavily influenced by returns of lower quality companies in the Index.
- On a total return basis, the Class I and Class R[i] Fund gained 5.69% and the Class X Fund gained 5.54% in the quarter, while the Index increased 5.89%.
- As we approach year-end, 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. 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 and that is the source and driver of our conviction in the long-term return potential the Fund offers our clients.

### Market Overview

#### 3Q 2024

During the 3rd quarter of 2024, most companies in the Index reported 2nd quarter 2024 results and provided near and longer-term guidance. Companies in the Index combined to report mixed results in the 2nd quarter of 2024, with strong growth in earnings contrasting with modest declines in free cash flow<sup>1</sup> generation. Combined with 1st quarter results, net earnings per share of the companies in the Index grew a healthy 6.9% during the 1st half of 2024 when compared with the prior year period. However, free cash flow per share growth for the Index was at a more pedestrian rate of 1.5% over the 1st half 2024 and 2023 comparative periods.

While economic profit growth is still below long-term averages and normalized rates of growth for the Index, the mid-year results in 2024 represent a meaningful improvement over 2023, which was a fundamentally challenging year for the Index with net earnings and free cash flow per share declining 1.4% and 3.1%, respectively, over the prior year period. We would characterize forward guidance by the companies in the Index as unusually mixed, with pockets of fervent optimism related to artificial intelligence and, longer-term, the energy transition, dominating investor sentiment, effectively drowning out concerns and risks expressed by companies that predominately operate in other parts of the economy.

**This is a marketing communication. Please refer to the prospectus of the fund and to the KIID/KID before making any final investment decisions.**

<sup>1</sup> Free cash flow (FCF) is the cash a company generates after taking into consideration cash outflows that support its operations and maintain its capital assets.

Holdings As of 30 September 2024	
Alphabet Inc	7.4%
Microsoft Corp	7.0%
Oracle Corp	5.9%
Mastercard Inc	5.9%
Linde PLC	5.7%
KLA Corp	5.1%
Waste Management Inc	4.6%
Booking Holdings Inc	4.5%
Costco Wholesale Corp	4.5%
Arthur J Gallagher & Co	4.4%
Alcon AG	4.2%
Amazon.com Inc	3.8%
Adobe Inc	3.5%
Zoetis Inc	3.5%
Thermo Fisher Scientific Inc	3.1%
S&P Global Inc	3.1%
Texas Instruments Inc	2.8%
Automatic Data Processing Inc	2.8%
Abbott Laboratories	2.8%
Progressive Corp	2.6%
UnitedHealth Group Inc	2.2%
Berkshire Hathaway Inc	2.1%
Otis Worldwide Corp	1.9%
NIKE Inc	1.8%
Applied Materials Inc	1.3%
Cadence Design Systems Inc	1.1%
Mister Car Wash Inc	1.4%
AMN Healthcare Services Inc	1.2%
Cash & Cash Equivalents	4.7%

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.

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 5.88% during the 3rd quarter 2024 period. The strong stock price performance of the Index was primarily led by Utilities (19.4%), which are riding a wave of enthusiasm due to falling interest rates and expectations that the sector will benefit from increased demand for power to support the massive build-out of energy intensive data centers, broader artificial intelligence computing needs and the electrification of the automotive and broader transportation industry. Real Estate (+17.2%), Industrials (+11.2%), and Financials (+10.2%) were the next strongest sectors and combined with Utilities, contributed approximately 280 basis points<sup>2</sup> 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 3rd quarter of 2024, most portfolio companies in the Fund reported 2nd quarter 2024 results and provided near and longer-term guidance. The financial results of the portfolio companies in the Strategy were strong on an absolute basis with net earnings and free cash flow per share growing 26.7% and 17.7%, respectively, during the first half of the year. This compared very favorably to the fundamental performance of the Index, where net earnings and free cash flow per share increased 6.9% and 1.5%, respectively, continuing a multi-year period of fundamental outperformance.<sup>3</sup>

#### Calendar Year Ending 2023

Free Cash Flow per Share	CY24 / 1st Half	1 Year / Year	3 Yr. CAGR	4 Yr. CAGR	5 Yr. CAGR
Core Select	16.8%	20.6%	10.9%	12.5%	9.5%
S&P 500	1.5%	-3.1%	5.2%	5.7%	5.1%
S&P 500 Equal Weighted	1.2%	6.0%	5.2%	4.8%	6.0%

Net Earnings Per Share	CY24 / 1st Half	1 Year / Year	3 Yr. CAGR	4 Yr. CAGR	5 Yr. CAGR
Core Select	26.0%	16.0%	16.1%	15.3%	10.5%
S&P 500	6.9%	-1.4%	16.7%	8.0%	6.7%
S&P 500 Equal Weighted	6.2%	1.9%	22.8%	8.1%	7.6%

#### Past performance does not predict future results.

Current high cash levels were a modest drag to our absolute and relative performance during the quarter but are a necessary by-product of our valuation discipline. 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, and 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.

<sup>2</sup>Basis points (bps) is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

<sup>3</sup> 5 Year CAGR BBH analysis period starting 2018 through 2023, 5 Year Avg BBH analysis period starting 2019 through 203. CAGR = compound annual growth rate; EBITDA = earnings before interest, taxes, depreciation, and amortization.

## Fund Activity

During the quarter, we initiated positions in two companies, exited two long-term investments, and made several portfolio rebalancing trades reflective of relative valuation opportunities, risk and fit with our investment criteria.

One of our new investments was **Applied Materials**, which develops, manufactures, and services semiconductor wafer fabrication equipment and spare parts for the global semiconductor industry. The company was founded in 1967, is based in Santa Clara, California, and employs more than 34,000 people. In 2023, Applied Materials generated revenues of \$26.5 billion, operating profit of \$7.7 billion, and earnings per share of \$8.06. The Company has a current market capitalization of ~\$160 billion and a \$2.5 billion net cash position.

The fabrication of semiconductors is an exceedingly complex business that is supported by a handful of specialized process tool makers. As component dimensions have declined and process complexity has increased, annual research and design expenditures to support new technology nodes have increased so that very few companies can invest to support the necessary technological advancements. Applied Materials is one of those companies and, as such, occupies an important position in an industry with attractive growth dynamics. Applied Materials holds the leading position in the Deposition and Doping markets (adding materials to a semiconductor wafer during the fabrication process) and has the second largest market share in Material Removal and Cleaning. These are concentrated markets with extraordinary barriers to entry and possesses very long and expensive R&D cycles.

Strong execution by a world class executive management team, together with a constructive industry structure, have led to strong returns on capital and free cash flow generation for Applied Materials. We expect the company's absolute and relative economic profit and free cash flow profile to continue, allowing them to compound economic value at attractive absolute levels and in excess of the Index.

The second new investment was **Cadence Design Systems**, which provides Electronic Design Automation (EDA) software, intellectual property licenses, simulation hardware, and consulting services to the semiconductor industry, all of which are critical to the design and manufacture of integrated circuits (ICs). Cadence's subscription software business model results in a predictable business where more than 84% of revenues are recurring and realized through three-year contracts with customers. Cadence has over a 30% share of the EDA market and competes primarily with Synopsys and Siemens in a stable, oligopolistic industry structure. The Company was founded via merger in 1988, is headquartered in San Jose, California, and employs roughly 11,200 people globally. In 2023, Cadence generated revenues of \$4.1 billion, operating profit of \$1.3 billion, and earnings per share of \$3.82. The Company has a current market capitalization of ~\$71.1 billion and net debt of \$300 million.

EDA software is essential to the design and manufacture of semiconductors: it speeds time from concept to production, lowers the labor required to develop new ICs, and increases the functionality and efficiency of chips and the systems they enable. Simply put, without EDA software, modern semiconductors could not be efficiently designed, tested, or manufactured. Over very long historical time periods, the semiconductor industry has grown 7% in volume and 8% in value annually and that tailwind is likely to continue. Because of the R&D intensity of producing modern EDA software, the barriers to entry in the industry have increased and the industry has consolidated to a highly attractive and stable oligopoly with three scaled, incumbent vendors. We expect the rational and attractive industry structure within which Cadence operates to persist.

Strong execution by an executive management team we have grown to admire, together with a constructive industry structure, have led to strong returns on capital and free cash flow generation for Cadence. We expect the company's absolute and relative economic profit and free cash flow profile to continue, allowing them to compound economic value at attractive absolute levels and in excess of the Index.

During the quarter, we exited our positions in Nestle (NSRG) and Diageo (DEO), two successful long-term investments, given our concerns about the rate of future growth. In addition, we made several portfolio rebalancing trades reflective of relative valuation opportunities, risk and fit with our investment criteria.

## Outlook

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<sup>4</sup> methodology. In addition, current market expectations for growth appear robust to us. Consensus expectations for earnings growth for the Index are approximately 7.5% for 2024 and 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, we were pleased by the continued overall strong absolute and relative fundamental financial and operating performance of the portfolio companies in the Fund. We were also pleased with the strong stock price performance of the Fund during the 3rd quarter of 2024. Given the near and longer-term outlooks provided by the companies in the Fund, we are optimistic that these strong trends will continue and are hopeful that the differentiated financial attributes of the Fund will be better recognized by other investors in the future, improving the stock price performance of the Fund relative to the Index over time.

<sup>4</sup> The weighted average percentage of intrinsic value represents the market value of the portfolio securities as a percentage of what BBH estimates to be the present value of the cash that the portfolio's businesses can generate and distribute to shareholders over the businesses' remaining life.

**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									
	2023	2022	2021	2020	2019	2018	2017	2016	2015
<b>Class I</b>	22.71%	-21.33%	26.19%	12.17%	28.81%	-7.75%	18.76%	7.65%	-3.24%
<b>Class R[i]</b>	22.71%	-21.33%	26.24%	12.18%	28.80%	-7.75%	18.73%	7.65%	-3.24%
<b>Class RN[i]*</b>	N/A	N/A	26.23%	12.18%	28.79%	-7.77%	18.74%	7.66%	-3.23%
<b>Class X</b>	22.04%	-21.76%	25.54%	11.56%	28.09%	-8.25%	18.11%	7.06%	-3.77%
<b>Class R[i](GBP)**</b>	16.39%	-12.18%	27.91%	8.66%	23.93%	-2.28%	8.31%	28.69%	2.31%
<b>Class RN[i](GBP)***</b>	N/A	N/A	27.90%	8.66%	23.95%	-2.28%	8.35%	28.76%	2.31%
<b>S&amp;P 500</b>	26.29%	-18.11%	28.71%	18.40%	31.49%	-4.38%	21.83%	11.96%	1.38%

As of 30/09/2024	Total Returns		Average Annual Total Returns				
	3 Mo.	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception
<b>Class I</b>	1.39%	15.04%	27.68%	5.18%	10.07%	9.04%	11.60%
<b>Class R[i]</b>	1.39%	15.04%	27.68%	5.18%	10.08%	9.04%	10.51%
<b>Class X</b>	1.24%	14.51%	26.97%	4.60%	9.48%	8.44%	9.81%
<b>S&amp;P 500</b>	3.66%	20.97%	38.02%	9.08%	15.27%	13.00%	14.78%

Class I Inception: 28/01/2009  
 Class R[i] Inception: 21/10/2011  
 Class RN[i] Inception: 02/05/2014  
 Class X Inception: 10/07/2012  
 Class R[i](GBP) Inception: 28/03/2013  
 Class RN[i](GBP) Inception: 02/05/2014  
 Class I, Class R[i], Class RN[i], Class R[i](GBP), Ongoing Charges: 1.15%  
 Class X Ongoing Charges: 1.70%

Returns of less than one year are not annualized. \* Class RN[i] redeemed 20 April 2022. \*\* Class R[i](GBP) redeemed August 2024. \*\*\* Class RN[i](GBP) redeemed 16 November 2022.

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 RA, I, R[i], X, and R[i](GBP) 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 30 September 2024					
	ISIN	Inception Date	Total Net Assets (mil)	NAV	Upside/Downside Capture <sup>1</sup>
<b>Class I</b>	LU0407242659	28/01/2009	\$317.3	\$58.64	85.4% / 101.1%
<b>Class R[l]</b>	LU0527403801	21/10/2011	\$22.9	\$38.10	85.4% / 101.1%
<b>Class X</b>	LU0643341406	10/07/2012	\$2.8	\$32.71	

<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 30 September 2024	
Common Stock	98.2%
Cash and Cash Equivalents	1.8%
Other Assets in Excess of Liabilities	0.0%
<b>Total</b>	<b>100.0%</b>

Fund Facts As of 30 September 2024	
Total Net Assets (mil)	\$343.0
Number of Securities Held	26
Average P/E	28.5
Average Market Cap (bil)	\$522.2
Exclude cash equivalents	

Sector Weighting As of 30 September 2024	
Communication Services	6.8%
Consumer Discretionary	9.5%
Consumer Staples	4.3%
Energy	0.0%
Financials	21.7%
Health Care	16.2%
Industrials	8.7%
Information Technology	27.2%
Materials	5.6%
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 30 September 2024	
Microsoft Corp	6.9%
Alphabet Inc	6.7%
Oracle Corp	5.6%
Linde PLC	5.5%
KLA Corp	5.5%
Mastercard Inc	5.4%
Progressive Corp	4.8%
Costco Wholesale Corp	4.3%
Alcon AG	4.2%
Waste Management Inc	4.1%
<b>Total</b>	<b>53.1%</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.

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.

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.

## Other Important Disclosures

Brown Brothers Harriman & Co. ("BBH") is the promoter and principal distributor of the Funds. Brown Brothers Harriman Mutual Fund Advisory Department (a separately identifiable department of BBH) provides investment advice to the Funds. BBH Luxembourg Funds (the "Company") is a Luxembourg-registered Société d'Investissement à Capital Variable - undertaking for collective investment in transferrable securities (SICAV-UCITS) regulated by the Commission de Surveillance du Secteur Financier ("CSSF"), the Luxembourg financial services authority. The SICAV designated FundRock Management Company S.A. to serve as its designated management company in accordance with Chapter 15 of the Luxembourg Law of 17th December 2010; FundRock Management Company S.A. was incorporated on 10 November 2004 for an unlimited duration under the laws of Luxembourg and registered on the official list of Luxembourg management companies.

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Subscriptions will only be received and shares issued on the basis of the current prospectus of the Company (the "Prospectus") and applicable Key Investor Information Documents of the Fund (the "KIIDs") or Key Information Documents of the Fund (the "KIDs"). Investment in this Fund entails risks which are described in more detail in the Prospectus and the KIIDs/KIDs. Investors should obtain and read a copy of the Prospectus and the KIIDs/KIDs before investing. Exit Charges are payable to the Fund and not BBH. For a copy of the Prospectus and the KIDs, in English or German or the KIIDs in English, please contact the Company's representative or its local distributor, or access the following site: [www.bbhluxembourgfunds.com](http://www.bbhluxembourgfunds.com). The contact details of the Company's representatives in the countries where the Company is registered are provided below in the section for each country.

The Company complies with the European Directive 2009/65/EC on undertaking for collective investment in transferable securities (UCITS), dated 13 July 2009, which established a set of common rules in order to permit the cross border marketing of collective investment schemes. Unauthorized distribution, reproduction or redistribution of this document without the prior written permission of the Company is prohibited. Potential investors in the Fund should not treat the contents of this document as advice relating to legal, taxation, investment or any other matters and are recommended to consult their own professional advisers concerning the acquisition, holding or disposal of shares of the Fund.

Neither the Fund nor any of its shares have been registered, nor will be registered, under the U.S. Investment Company Act of 1940, as amended, or the U.S. Securities Act of 1933, as amended, and, as such, may not be offered or sold directly or indirectly in the United States or to a U.S. person.

### **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.**

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

**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).**

The views expressed in this material are those of the presenters as of the date of this webinar and may or may not be consistent with the views of Brown Brothers Harriman & Co. and its subsidiaries and affiliates ("BBH") and are intended for informational purposes only.

The Fund is classified as Article 6 under the Sustainable Finance Disclosure Regulation.

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

## RISKS

The value of the Fund fluctuates as the value of the underlying shares in which it invests fluctuate. The Fund is subject to equity risk, in that its investments in shares are subject to market risks that may cause their prices to fluctuate over time. This can affect the value of your investment. Political and economic changes as well as changes in the company in which the Fund invests may also affect the value of your investment.

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.