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BROWN BROTHERS HARRIMAN

CAPITAL PARTNERS

BBH Luxembourg Funds - BBH Income Fund

Quarterly Fund Update | 1Q 2025

1Q Highlights

- The Fund outperformed its benchmark during the quarter on the heels of favorable sector and rating emphases and credit selection results.
- With spreads wider and positive net issuance, opportunities are emerging in pockets of the market.
- We continued to find durable credits offering attractive value even as valuations reflect a growing belief that the U.S. economy is slowing.

PERFORMANCE
Past performance does not predict future results

	Annual returns									
Fund/benchmark	**2024**	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Class A	2.92%	7.59%	-13.28%	0.13%	–	–	–	–	–	–
Bloomberg US Aggregate Bond Index	1.25%	5.53%	-13.01%	-1.54%	–	–	–	–	–	–

AS OF 31 MARCH 2025

	Total return		Average annual total returns		
Fund/benchmark	**3 mo.**	**YTD**	**1 yr.**	**3 yr.**	**Since inception**
Class A	2.80%	2.80%	5.65%	1.49%	-0.09%
Bloomberg US Aggregate Bond Index	2.78%	2.78%	4.88%	0.52%	-1.15%

Class A Inception: 02/11/2020

Class A Ongoing Charges: 0.55%

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. Subscription may be subject to an entry charge up to, but not to exceed, 3% of the initial price or subscription price. Fund shares redeemed within 30 days of purchase may be subject to an exit charge of 1%. The entry and exit charges shown are maximum figures. In some cases you may pay less. Performance has been calculated in USD. Performance can be increased or reduced as a result of currency fluctuations.

Sources: Bloomberg and BBH & Co.

Market environment

First quarter 2025 may have been the calm before the storm. Treasury rates declined across the yield curve as concerns about muted growth prospects emerged due to indications the U.S. government planned to introduce protectionist trade policies. These concerns impacted investor predictions for forward-looking Fed interest rate decisions, indicating one additional Fed rate cut was expected and bringing the tally of expectations to four cuts by year end. The next Fed decision is scheduled for May 7th, and investors predict no change to the federal funds rate at that meeting.

The Bloomberg U.S. Aggregate Index returned 2.8% during the first quarter as interest rates declined and credit spreads widened modestly from a low base. Riskier market segments underperformed high-quality bonds. The Bloomberg U.S. Corporate High Yield Index returned 1.0%, and the S&P 500 Index returned -4.3%. All major credit segments of the Bloomberg U.S. Aggregate Index had negative excess returns during the quarter.

EXHIBIT I: FIXED INCOME INDEXES RETURNS

Index	Duration (Years)	Total return (%) QTD	Total return (%) YTD	Excess return (%) QTD	Excess return (%) YTD
J.P. Morgan Leveraged Loan Index[1]	0.3	0.48	7.02	-0.56	2.00
Palmer Square CLO Debt Index[1]	0.3	1.53	10.24	0.49	5.22
Bloomberg ABS ex Stranded Cost Utilities Index	1.8	1.51	6.22	-0.08	0.78
Bloomberg 2 Year U.S. Treasury Bellwether Index	1.8	1.59	5.20	–	–
Bloomberg U.S. Corporate High Yield Index	3.1	1.00	7.69	-1.13	2.20
Bloomberg Non-Agency CMBS Index	3.7	2.30	7.10	-0.18	1.82
ICE BofA AA-BBB US Misc. ABS Index	3.9	2.13	7.34	-0.39	1.96
Bloomberg Intermediate Corporate Index	4.1	2.27	6.32	-0.29	1.11
Bloomberg U.S. TIPS Index	4.9	4.17	6.17	–	–
Bloomberg U.S. Treasury Index	5.9	2.92	4.51	–	–
Bloomberg MBS Index	5.9	3.06	5.39	-0.07	0.47
Bloomberg EM USD Aggregate Index	6.0	2.34	7.43	-0.63	2.96
Bloomberg Aggregate Index	**6.1**	**2.78**	**4.88**	**-0.23**	**0.33**
Bloomberg U.S. Corporate Index	6.9	2.31	4.90	-0.85	0.74
Bloomberg 10 Year U.S. Treasury Bellwether Index	7.9	3.99	3.93	–	–
Bloomberg Taxable Municipal Index	9.2	2.83	3.38	-0.99	-0.06
Bloomberg Long Corporate Index	12.6	2.38	2.11	-1.99	0.01

Data reported as of 31 March 2025

Past performance does not guarantee future results.

Source: Bloomberg, J.P. Morgan, Palmer Square, ICE, Bank of America, BBH.

Unless otherwise noted Excess Returns are the returns in the excess of duration matched Treasuries.

[1] Excess return computed by BBH as total return less the return of the Bloomberg 3 Month T-Bill Bellwether Index, a proxy for the duration profile of floating-rate leveraged loans and CLO debt.

Credit issuance remained robust during the quarter, with issuers refinancing short maturities amid low credit spreads, muted volatility, and strong demand. High-grade corporate bond issuance increased 19% while high yield issuance (bonds plus loans) was flat year over year. Asset-backed securities (ABS) issuance was flat, but nontraditional ABS volumes increased 10% from 2024’s pace. Commercial mortgage-backed securities (CMBS) volumes jumped 139% off a lower base year over year. Net issuance was modest but positive in all credit sectors.

With spreads wider and positive net issuance, opportunities are emerging in pockets of the market. The percentage of credits that screened as a “buy” increased to 11% from 4% for investment-grade corporate bonds and to 38% from 16% for high yield corporate bonds. The percentage of loans screening as a “buy” decreased though to 45% from 58%. Within the investment-grade corporate credit market, interest rate-sensitive sectors like life insurance, finance companies, and banks continue to screen attractively, while opportunities are also emerging in consumer cyclical companies. Tariff pressures should have a greater effect on more leveraged businesses in the high yield market, which drove credit spreads toward more appropriate ranges.

Away from credits in mainstream indexes, spreads in some ABS subsectors increased toward their long-term averages. Most nontraditional ABS continue to screen attractively in our valuation framework and offer appealing yield prospects. Data center ABS spreads widened from very low levels as concerns over long-term data center demand arose from artificial intelligence (AI) efficiency improvements and potential tariffs. CMBS spreads in select opportunities remain disconnected from their credit profiles, as property-level dynamics remain imperative for performance.

EXHIBIT II: OUTLOOK BY SECTOR

Sector	Outlook	Positioning
Reserves		
U.S. Treasuries/futures/reserves	Hold when attractive credits unavailable	Held to balance yield curve and duration exposures
Government-related	Unattractive valuations; better opportunities elsewhere	No positions in portfolios
Municipal	Valuations of select municipals are attractive for inclusion in taxable portfolios	Holdings include transportation revenue bonds
Structured credit		
U.S. MBS	No purchase opportunities in 15- or 30-year pools	No positions in portfolios
RMBS	Continued credit, technical, and valuation concerns	No positions in portfolios
CMBS	Opportunities exist among high-quality properties seeking to refinance	Hold positions in SASB CMBS deals where we have transparency into collateral dynamics
ABS	Opportunities returning as many sectors' spreads reverted towards long term averages	Hold positions across diversified set of nontraditional segments
Corporate credit		
IG corporate bonds	Amount of attractively valued opportunities in benchmarks remains low but is rising	Holdings remain in some interest rate sensitive sectors and among certain security selection opportunities
HY corporate bonds	Spreads widen towards long-term average and attractively valued opportunities emerging	Approaching new opportunities cautiously due to potential impact of tariff pressures
Other credit		
Emerging markets	Concerns remain about creditor rights in most emerging market countries	No positions in portfolios

As of 31 March 2025. Portfolio holdings and characteristics are subject to change.

MBS = Mortgage-Backed Securities; RMBS = Residential Mortgage-Backed Securities; CMBS = Commercial Mortgage-Backed Securities; ABS = Asset-Backed Securities; IG = Investment Grade; HY = High Yield; SASB = Single Asset, Single Borrower; REIT = Real Estate Investment Trust
Source: BBH

Valuations

Valuations are not yet broadly attractive, and caution is still warranted in several areas of the market. Agency mortgage-backed securities (MBS) valuations remain broadly unattractive as spreads compressed further, with no cohort of the 15- or 30-year MBS market screening as a "buy" candidate. Negative excess returns remain possible for most of the investment-grade corporate bond universe. Less than half of the high yield corporate bond and loan markets screen attractively, highlighting the importance of a selective approach. Spreads on collateralized loan obligation (CLO) debt widened from very narrow levels to below-average levels. Emerging market credits remain unappealing due to concerns over creditor rights in most countries and its impact on their durability, compounded with the uncertainties that tariffs may impose on supply chains. We believe nonagency residential mortgage-backed securities (RMBS) remain plagued by poor issuance trends, unattractive valuations, and weak fundamentals.

Valuations reflect a growing belief that the U.S. economy is slowing. GDP estimates declined and suggested a recession is possible. Changing global tariff policies have weighed on business and consumer sentiment while also driving concerns about inflation.

Credit performance of business loans have been strong, although recent tariff policies may challenge future credit performance. Defaults trended lower, while recoveries improved. U.S. business bankruptcies remain low, and business loans held at banks are performing well. There has been an increase in pay-in-kind (PIK) interest for loans held in some private credit structures. We are monitoring the increase in PIK loans closely to distinguish between unique borrower business models vs. inabilities to service debt.

Performance

– The Fund outperformed its benchmark during the quarter on the heels of favorable sector and rating emphases and credit selection results.

– The Fund was overweight to strong-performing segments of the investment-grade and high yield corporate bond market and its avoidance of MBS also enhanced returns.

– Security selection contributed to results, particularly within holdings of investment-grade corporate bonds.

– High yield corporate bonds of technology companies and investment-grade corporate bonds of banking, property and casualty, and life insurance issuers contributed to performance.

– High yield corporate bonds of cable satellite companies detracted from performance.

EXHIBIT III: PERFORMANCE ATTRIBUTION

	Average weight (%)			Contribution (basis points)		
	Portfolio	Benchmark	Active	Rates	Sector	Selection
Total Portfolio	**100.0%**	**100.0%**	**0.0%**	**-3**	**11**	**11**
Reserves	27.1%	45.3%	-18.1%		0	0
Government-related	0.0%	3.7%	-3.7%		1	0
Municipal	0.6%	0.0%	0.6%		-1	1
U.S. MBS	0.0%	25.0%	-25.0%		2	0
CMBS	0.0%	1.5%	-1.5%		0	0
ABS	0.0%	0.5%	-0.5%		0	0
IG corporate bonds	62.4%	24.1%	38.4%		13	7
HY corporate bonds	9.8%	0.0%	9.8%		-4	2

Past performance is no guarantee future results

Contribution figures are presented gross of fees

Data reported quarterly from 1 January 2025 to 31 March 2025

Basis point or "bp" is 1/100th of a percent (0.01% or 0.0001)

MBS = Agency Residential Mortgage-Backed Securities; RMBS = Non-Agency Residential Mortgage-Backed Securities; CMBS = Commercial Mortgage-Backed Securities; ABS = Asset-Backed Securities; IG = Investment Grade; HY = High Yield

Source: BBH

Transaction summary

We continued to find durable credits offering attractive value even as valuations reflect a growing belief that the U.S. economy is slowing. The table below summarizes a few notable portfolio additions.

EXHIBIT IV: TRANSACTION SUMMARY

Obligor	Coupon	Maturity	Yield (YTM)	Rating	Spread	Spread reference	Duration	Sector	Subsector
Ares Capital Corp	2.15	7/15/2026	4.9	BBB	77	Treasury	1.3	Corporate Bond	Financial Other
Royal Bank of Canada	4.72	3/27/2028	4.7	AA-	68	Treasury	1.9	Corporate Bond	Banking
James Hardie Industries PLC	5.00	1/15/2028	5.8	BBB	147	Treasury	2.2	Corporate Bond	Building Materials
Synopsys Inc	4.55	4/1/2027	4.6	BBB+	65	Treasury	1.9	Corporate Bond	Technology
NextEra Energy Inc	8.63	3/15/2033	8.6	BB+	418	Treasury	4.6	Corporate Bond	Electric

As of 31 March 2025. Portfolio holdings and characteristics are subject to change.

MBS = Mortgage-Backed Securities; CMBS = Commercial Mortgage-Backed Securities; ABS = Asset-Backed Securities; REIT = Real Estate Investment Trust

SOFR = Secured Overnight Financing Rate, which is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities

Source: BBH

Characteristics

– At the end of the quarter, the Fund's duration was 6.02 years and continued to approximate that of its benchmark.

– The Fund's weight to investment-grade corporate bonds increased to 63% from 59% while weight to reserves decreased to 26% from 29%. Yield to maturity was 5.3% and remained elevated vs. bond market alternatives.

– The Fund's option-adjusted spread was 109 basis points (bps)[1] over Treasuries; for reference, the Bloomberg U.S. Corporate Index's was 35 bps over Treasuries at quarter end.

EXHIBIT V: CHARACTERISTICS

Portfolio characteristics

	Portfolio	Benchmark	Active
Effective duration (years)	6.02	6.04	100%
Spread duration (years)	2.18	3.34	65%
Yield to maturity (%)	5.37	4.60	0.77
Option-adjusted spread (bps)	109	35	74

Credit rating (%)

	Portfolio	Benchmark
AAA/TSY/cash	28.7	73.2
AA	11.6	3.4
A	23.0	11.3
BBB	26.6	12.0
BB	6.9	0.0
B	1.7	0.0
CCC & below/NR	1.5	0.0

Sector allocation (%)

	Portfolio	Benchmark	Active
Reserves	26.3	45.5	-19.2
Government-related	0.0	3.7	-3.7
Municipal	0.6	0.0	0.6
MBS (agency)	0.0	24.8	-24.8
CMBS	0.0	1.5	-1.5
ABS	0.0	0.5	-0.5
IG corporate bonds	63.0	24.1	39.0
HY corporate bonds	10.1	0.0	10.1

Portfolio holdings and characteristics are subject to change.

Benchmark is the Bloomberg US Aggregate Bond Index

Data reported as of 31 March 2025

TSY = Treasury; MBS = Mortgage-Backed Securities; RMBS = Residential Mortgage-Backed Securities; CMBS = Commercial Mortgage-Backed Securities; ABS = Asset-Backed Securities; IG = Investment Grade; HY = High Yield

Source: BBH

Concluding remarks

Uncertainty over tariffs is already having a recessionary impact on business activity and could pressure the performance of many industries and companies. We remain steadfast in our approach, focusing on identifying durable credits[2] – those that can withstand the worst environments faced by their issuer's industries – at attractive yields. We do this by evaluating individual opportunities bottom-up and not allowing top-down sentiments to alter the application of this approach. We believe this decision-making structure serves our clients well in all environments, whether markets are calm and complacent or volatile and uncertain.

Sincerely,

Andrew P. Hofer
Fund Co-Manager

Neil Hohmann, PhD
Fund Co-Manager

Paul Kunz, J.D., CFA
Fund Co-Manager

Thomas Brennan, CFA
Fixed Income Product Specialist

[1] 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.
[2] 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. Durable means the ability to withstand a wide variety of economic conditions

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 re-purchased. Nothing contained herein is intended as a recommendation to buy or sell any security, or to invest in any particular country, sector or asset class.

Traditional ABS include prime auto backed loans, credit cards and student loans (FFELP). Non-traditional ABS include ABS backed by other collateral types.

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

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

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. Weighted Average Life of securities excludes US Treasury futures positions.

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.

Weighted Average Life of securities excludes US Treasury futures positions.

The Fund is actively managed. Under normal circumstances, the Fund is managed with the intention of maintaining an effective duration of between 80%-120% of the effective duration of Bloomberg US Aggregate Index.

Traditional ABS include prime auto backed loans, credit cards and student loans (FFELP). Non-traditional ABS include ABS backed by other collateral types

Definitions

Bloomberg US Aggregate Bond Index is a market value-weighted index that tracks the daily price, coupon, pay-downs, and total return performance of fixed-rate, publicly placed, dollar-denominated, and non-convertible investment grade debt issues with at least $300 million par amount outstanding and with at least one year to final maturity.

An index is not available for direct investment.

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Risks

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. Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices.

Asset-Backed Securities ("ABS") are subject to risks due to defaults by the borrowers; failure of the issuer or servicer to perform; the variability in cash flows due to amortization or acceleration features; changes in interest rates which may influence the prepayments of the underlying securities; misrepresentation of asset quality, value or inadequate controls over disbursements and receipts; and the ABS being structured in ways that give certain investors less credit risk protection than others.

SASB lacks the diversification of a transaction backed by multiple loans since performance is concentrated in one commercial property. SASBs may be less liquid in the secondary market than loans backed by multiple commercial properties.

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.

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

Illiquid investments subject the Fund to the risk that it may not be able to sell the investments when desired or at favorable prices.

There is no assurance the Fund will achieve its investment objectives.

Complete information on the Fund's risks and expenses can be found in the prospectus.

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

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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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.

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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).

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.

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

BBH

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