BBH Luxembourg Funds - BBH Income Fund

Quarterly Fund Update / 4Q 2023

BROWN BROTHERS HARRIMAN

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4Q Highlights

- The Fund's sector and rating emphases contributed to relative results during the quarter. Security selection was also additive to relative performance, with most results driven from holdings of high yield corporate bonds.
- Narrowing risk spreads caused valuations of Index credits to weaken during the quarter, yet there remains an abundance of opportunities in select subsectors of the market.
- Despite waning opportunities in the credit markets, we identified numerous new opportunities across a variety of sectors and industries for the Fund during the quarter.

Performance
Past performance does not prefuct future results

Annual Returns										
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class A	7.59%	-13.28%	0.13%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bloomberg US Aggregate Bond Index	5.53%	-13.01%	-1.54%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

As of 31 December 2023

	Total Returns		Average Annual Total Returns				
Fund/Benchmark	3 Mo	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception
Class A	7.45%	7.59%	7.59%	-2.24%	N/A	N/A	-1.89%
Bloomberg US Aggregate Bond Index	6.82%	5.53%	5.53%	-3.31%	N/A	N/A	-2.82%

Class A Ongoing Charges: 0.55%
Inception date: 11/02/2020
Returns of less than one year are not annualized

The past performance excludes the entry and exit charges. The ongoing charges figure shown is an estimate and excludes portfolio transaction costs.This figure may vary from year to year. The entry change is 3% of the initial price of the subscription price. The 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 case 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

Interest rates fell and credit spreads narrowed across the fixed income markets during the fourth quarter. Just three months ago, the Bloomberg Aggregate Index (the "Index") had a negative year-to-date total return after interest rates rose and market conditions suggested a "higher-for-longer" interest rate environment. Those conditions changed rapidly, as investor expectations now reveal quicker and larger Federal Reserve (Fed) rate cuts in 2024. The prospect of near-term Fed easing may also alleviate investor concerns about near-term economic risks.

Fixed income indexes experienced positive returns amid the decline in interest rates (see Exhibit I). Risk spreads narrowed significantly throughout the credit markets and provided an additional boost to the performance of credit indexes. Indexes of investment-grade (IG) corporate bonds, asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), high yield (HY) corporate bonds, senior bank loans, and collateralized loan obligation (CLO) debt all outperformed Treasury alternatives during the quarter. The Agency MBS Index also posted notably strong performance after exhibiting volatility throughout the year as the Fed executes its quantitative tightening campaign.

Exhibit I: Fixed Income Indexes Returns

	Duration	Total Return (%)		Excess Return (%)	
Index	(Years)	QTD	YTD	QTD	YTD
Morningstar LSTA Leveraged Loan Index[1]	0.3	2.87	13.35	1.48	8.19
Palmer Square CLO Debt Index[1]	0.3	4.07	17.42	2.68	12.26
Bloomberg 2 Year U.S. Treasury Bellwether Index	1.8	2.49	3.65	–	–
Bloomberg ABS ex Stranded Cost Utilities Index	1.9	2.89	5.31	0.30	0.92
Bloomberg U.S. Corporate High Yield Index	3.2	7.16	13.45	3.31	8.86
Bloomberg Non-Agency CMBS Index	3.8	4.91	5.15	0.74	0.81
ICE BofA AA-BBB US Misc. ABS Index[2]	3.9	4.29	9.30	0.19	5.10
Bloomberg Intermediate Corporate Index	4.0	5.86	7.29	1.59	3.03
Bloomberg MBS Index	5.9	7.48	5.05	1.33	0.68
Bloomberg U.S. TIPS Index	5.9	4.71	3.90	–	–
Bloomberg EM USD Aggregate Index	6.1	8.10	9.09	2.56	5.32
Bloomberg U.S. Treasury Index	6.2	5.66	4.05	–	–
Bloomberg Aggregate Index	6.2	6.82	**5.53**	**0.88**	**1.40**
Bloomberg U.S. Corporate Index	7.1	8.50	8.52	2.03	4.55
Bloomberg 10 Year U.S. Treasury Bellwether Index	7.9	6.87	3.21	–	–
Bloomberg Taxable Municipal Index	9.6	8.98	8.85	0.57	5.20
Bloomberg Long Corporate Index	13.1	14.01	10.93	3.03	7.63

Past performance is no guarantee of future results
Unless otherwise noted Excess Returns is the returns in 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 the CLO Index
[2] Excess return computed by BBH as total return less the return of the Bloomberg 5 Year Treasury Bellwether Index, a proxy for the duration profile of the JPM Other ABS Index
Data reported as of 31, December 2023
Sources: Morningstar, JPM, Bloomberg, and BBH Analysis

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

Year-to-date, all credit indexes had positive excess returns. Non-agency CMBS outperformed comparable duration Treasuries slightly despite negative headlines regarding commercial real estate. Indexes of IG corporate bonds, senior bank loans, HY corporate bonds, nontraditional ABS, and CLO debt posted strong excess returns.

Valuations

Narrowing risk spreads caused valuations to weaken during the quarter. According to our valuation framework,[1] the percentage of IG corporate bonds that screened as a "buy" decreased to 23% versus 32% at the start of the quarter, while the percentage for HY corporate bonds was 24% versus 33% at the start of the quarter. There remains an abundance of opportunities in select subsectors of the market (see Exhibit II). We continue to find opportunities in intermediate maturity bonds and IG bonds issued by companies operating in interest rate sensitive sectors, like banks, life insurance, and real estate investment trusts (REITs). Several double-B and single-B rated bonds issued by companies in the wireline, wireless, transportation services, and media-entertainment sectors screen attractively. In the structured credit markets, we observe a continuing disconnect between wider credit spread levels and solid credit performance. We are finding an abundance of attractively valued opportunities in non-traditional ABS issuances and CLO debt. We believe opportunities in the CMBS market will arise as stronger properties come to market with Single Asset, Single Borrower (SASB) securitizations that facilitate strong transparency.

There are several sectors where valuation and durability concerns lead us to avoid positions in client portfolios. Valuations of agency MBS weakened amid strong spread compression during the fourth quarter, and only small segments of the market screen as a "buy" candidate to us. We continue to avoid non-agency residential mortgage-backed securities (RMBS) due to poor technical factors and weak fundamentals underpinned by weak housing affordability, low inventory of homes for sale, and stable-to-declining home prices. We continue to avoid emerging markets credits due to concerns regarding creditor rights in most countries.

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	Small opportunities dissipated as spreads rallied; only 0.4% screens as "buy candidates	No positions in portfolios; prepared to add opportunistically
RMBS	Continued credit and valuation concerns	No positions in portfolios
CMBS	Generalized fears do not account for bond level dynamics and durability	Hold positions in fixed- and floating-rate SASB CMBS deals; waiting for opportunities to emerge
ABS	Traditional segments unattractive, select nontraditional segments attractive	Hold positions in 20 nontraditional segments that offer attractive yields and demonstrable durability
Corporate Credit		
IG Corporate Bonds	Opportunities remain in some intereste rate sensitive sectors despite tighter index valuations	Holdings include intermediate maturity credits issued by banks, business development companies, property and casualty insurers, electric utilities, and life insurers
HY Corporate Bonds	Valuations tightening, Index spreads narrowing as conditions for leveraged borrowers improved	Holdings are diversified and include credits issued by midstream energy companies and electric utilities
Other Credit		
Emerging Markets	Concerns remain about creditor rights in most emerging market countries	No positions in portfolios

As of 31 December 2023
Portfolio holdings and characteristics are subject to change.
MBS = Mortgage-Backed Securities; RMBS = Residential Mortgage-Backed Securities; CMBS = Commerical Mortgage-Backed Securities; ABS = Asset-Backed Securities; SASB = Single Asset, Single Borrower; IG = Investment Grade; HY = High Yield; REIT = Real Estate Investment Trust
Source: BBH Analysis

[1] Our valuation framework is a purely quantitative screen for bonds that may offer excess return potential, primarily from mean reversion in spreads. When the potential excess return is above a specific hurdle rate, we label them "Buys" (others are "Holds" or "Sells"). These ratings are category names, not recommendations, as the valuation framework includes no credit research, a vital second step.

Performance

Sector and rating emphases contributed to relative results during the quarter. The Fund was overweight to strong-performing segments of the credit markets, including IG and HY corporate bonds. The avoidance of agency MBS hindered relative results during the quarter.

Security selection was also additive to relative performance, with most results driven from holdings of HY corporate bonds. Positions in HY corporate bonds issued by technology companies, electric utilities, and specialty finance companies impacted selection results favorably. Holdings of IG corporate bonds issued by banks, life insurers, and retailers also contributed to selection results.

Active interest rate exposures had a small but positive impact on returns. We manage the duration and yield curve exposures to replicate the Index's as transactions occur, and we expect the impact on relative performance to be relatively small over time.

Exhibit III: Fund Attribution

	Average Weight (%)			Contribution (Basis Points - Gross		
	Portfolio	Benchmark	Active	Rates	Sector	Selection
Total Portfolio	**100**	**100**	**0**	**3**	**69**	**17**
US Treasury	13.2	41.8	-28.6		0	0
Cash and Reserves	1.1	0.0	1.1		0	0
Government-Related	0.0	4.9	-4.9		-2	0
Municipal	0.6	0.0	0.6		1	1
US MBS	0.0	26.5	-26.5		-35	0
CMBS	0.0	1.7	-1.7		-1	0
ABS	0.0	0.5	-0.5		0	0
IG Corporate Bonds	74.6	24.7	49.9		75	1
HY Corporate Bonds	10.4	0.0	10.4		31	15

Past performance is no guarantee future results
Contribution figures are presented gross of fees
Data reported quarterly from 30 September 2023 to 31 December 2023
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 Analysis

Transaction Summary

We continued to find durable credits[2] offering attractive value despite dwindling attractiveness of valuations of credits in Indexes. The purchases were made across a variety of sectors and industries. Descriptions of a few notable portfolio additions are included below.

Macy's is a large U.S. department store chain company that boasts improving operational performance, low leverage, good liquidity, and no near-term debt maturities. We purchased the 2030 maturity, BBB- rated bonds in the secondary market at a spread of 478 basis points[3] over Treasuries for a yield of 9.7%. **Banco Santander** is the largest bank in Spain and has strong presences in Spain, Portugal, Latin America, and a U.S. regional bank. The bank has very strong capital adequacy, satisfactory asset quality and liquidity, and strong earnings. We purchased the new issue 8-year, BBB+ rated bonds at a spread of 300 basis points over Treasuries for a yield of 7.7%. **PNC** is a large U.S. regional bank holding company with consistent earnings, strong liquidity, strong asset quality, satisfactory capital, and well-regarded management. We purchased the new issue 4-year, A+ rated bonds at a spread of 160 basis points over Treasuries for a yield of 6.6%.

In the HY market, **ams AG** came to market during the quarter. The Austrian company is the third largest sensor and photonics provider in the world behind Sony and Samsung. The company recently lowered its debt load, has a solid liquidity profile, is cushioned by a $1.0 billion equity market capitalization, and has a path to decrease leverage in 2024. We purchased the new issue 5-year, BB- rated bonds at a spread of 803 basis points over Treasuries for a yield of 12.5%. **Credit Acceptance Corp** provides funding, receivables management, collection, sales training, and related services to automobile dealers. The company has a proven track record in underwriting lower tier subprime borrowers, their strength is accurately forecasting collection rates on loans, and losses have been negligible because it advances, on average, only 45% of the gross amount of the installment sales contract to dealers. We purchased the new issue 5-year, BB rated bonds at a spread of 499 basis points over Treasuries for a yield of 9.3%. **Bread Financial Holdings** is a publicly traded provider of loyalty and affinity credit card solutions. The company has a strong position in its industry, produces significant cash flow for debt servicing, and demonstrated resiliency during COVID-19. We purchased the new issue 5-year, BB- rated bonds at a spread of 548 basis points over Treasuries for a yield of 9.8%.

Characteristics

At the end of the quarter, the Fund's duration was 6.3 years and continued to approximate that of its benchmark (see Exhibit IV). HY investments represented 11.8% and were comprised primarily of credits rated double-B. Yield to maturity was 5.6% and remained elevated versus bond market alternatives. The option-adjusted spread (OAS) was 153 basis points over Treasuries; for reference, the Bloomberg U.S. Corporate Index's OAS was 99 basis points over Treasuries at month-end.

Exhibit IV: Fund Characteristics

Portfolio Characteristics

	Portfolio	Benchmark	Active
Effective Duration (Years)	6.25	6.25	100%
Spread Duration (Years)	3.80	3.62	105%
Yield to Maturity (%)	5.60	4.54	1.06
Option-Adjusted Spread (bps)	153	42	112

Credit Rating (%)

	Portfolio	Benchmark
AAA/TSY/Cash	15.7	71.9
AA	9.5	3.9
A	28.2	11.7
BBB	34.8	12.4
BB	10.1	0.0
B	0.7	0.0
CCC & Below/NR	1.0	0.0

Sector Allocation (%)

	Portfolio	Benchmark	Active
U.S. Treasury	13.1	41.7	-28.6
Reserves	1.8	0.0	1.8
Government-Related	0.0	4.8	-4.81
Municipal	0.6	0.0	0.6
MBS (Agency)	0.0	26.6	-26.6
CMBS	0.0	1.6	-1.6
ABS	0.0	0.5	-0.5
IG Corporate Bonds	72.6	24.8	47.8
HY Corproate Bonds	11.8	0.0	11.8

Portfolio holdings and characteristics are subject to change.

Benchmark is the Bloomberg US Aggregate Bond Index

Data reported as of 31 December 2023

Concluding Remarks

Several forces are being exerted on credit markets in 2024, and the effect on credit spreads and transaction volumes is uncertain. Valuations, potential defaults and recession, the prospect of Fed easing, heightened refinancing needs, and fund flows in a higher Treasury rate environment can cause the market to behave erratically in any given year, and this year promises to be no different. That is why strong valuation and credit disciplines are imperative to performing in the market.

Sincerely,

Andrew P. Hofer
Fund Co-Manager

Neil Hohmann, PhD
Fund Co-Manager

Paul Kunz, CFA
Fund Co-Manager

Thomas Brennan, CFA
Fixed Income Product Specialist

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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. 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.

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.

BBH has prepared this communication for use on a confidential and limited basis solely for the information of those to whom it is transmitted and is not to be reproduced or used for any other purpose. This communication, that constitutes a marketing communication, is intended to be a general update of the Fund and does not constitute an offer to sell, or a solicitation of an offer to purchase, any interest in the Fund or any other investment product in any jurisdiction where such offer or solicitation is not lawful, where marketing to the intended recipient is prohibited or where the person making such offer or solicitation is not qualified to do so.

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"). Investment in this Fund entails risks which are described in more detail in the Prospectus and the KIIDs. Investors should obtain and read a copy of the Prospectus and the KIIDs before investing. Exit Charges are payable to the Fund and not BBH. For a copy of the Prospectus and the KIIDs, in English, French, or German, please contact the Company's representative or its local distributor, or access the following site: 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.

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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.