BBH Luxembourg Funds - BBH Short Duration

Quarterly Fund Update /2Q 2022

For Professional / Non-Retail Use Only in Germany, Luxembourg and the UK

Financial markets in the second quarter continued to grapple with intertwined macroeconomic questions: Will inflation recede, and if so, how fast? Are we headed into a recession, or has the rapid tightening by the Federal Reserve (the Fed) already helped drive us into a recession? How will continued reductions in the Fed balance sheet ultimately affect fixed income markets?

There is little consensus on these questions, and we are not likely to settle them in this commentary. Macroeconomic models have limited predictive value and are distorted further by investor hopes and expectations. As fundamentally driven, bottom-up investors, our active management philosophy does not rely on macro forecasts. We focus instead on whether valuation levels are attractive or unattractive in an extended historical context. The two "predictions" we make regularly are:

1. Do **valuations** suggest that, by owning a particular debt security, we are more likely than not to outperform risk-free securities by an appropriate margin of safety[1], over the next year?
2. Is this debt instrument **durable** enough to repay us even in the most challenging economic circumstances?

Focusing on these objectives both drives long-term outperformance and helps us manage through economic cycles. For instance, if the economy heads into a recession, the credits we purchase must provide compensation over a safety margin that already takes into consideration elevated volatility. Focusing on bond-level valuation and credit strength is within our control and more dependable to follow, as well as more relevant to returns in our portfolios.

For the first time in recent quarters, the Fund underperformed duration-matched benchmarks as dramatically improved valuations led us to increase the weights to corporate and structured credit in the first half. This contrasts with the outperformance attained during the first quarter, when we observed that valuations moved from "broadly unappealing" to "improving." New purchases emerged through our thorough, bond-by-bond analysis with respect to both valuation and durability – not by top-down thinking of "we want to add risk to capitalize on rising spreads" or "spreads may widen more, let's wait to add credit exposure."

Year-to-date, the Fund is generally performing in line with its benchmark. We are encouraged that the quarters following a substantial rise in credit spreads are the ones that tend to generate the strongest outperformance. This happens as we add credit exposures during the periods when credit spreads – and often valuations – become more attractive.

Higher absolute interest rate levels and higher credit spreads are setting up for attractive return prospects from credit-oriented fixed income, although no one can predict when interest rates will peak (and bond returns bottom). In the short term, credit returns may continue to struggle, but credit risk spreads are already at the top quartile of their historic range and will increasingly provide some insulation from further spread widening. The credits we own are demonstrating their durability in several ways: upgrades are outpacing downgrades in investment-grade (IG) corporate bonds, default rates for high yield (HY) bonds and loans remain low (with none in the Fund), credit enhancements for structured credits remain robust, and delinquency rates for consumer- and commercial mortgage-related loans remain at low levels.

Ahead are a series of topics we explore most relevant to our investment process and the Fund.

The Transition from Inflation Fears to Recession Fears

All investors know that it is impossible to *consistently* predict the *timing* and *magnitude* of market reactions to macroeconomic developments. A classic joke that illustrates this is that an inverted yield curve predicted 12 of the last 7 recessions. Investors often anticipate a recovery before a recession is officially recognized.

[1] With respect to fixed income investments, a margin of safety exists when the additional yield offers, in BBH's view, compensation for the potential credit, liquidity and inherent price volatility of that type of security and it is therefore more likely to outperform an equivalent maturity credit risk-free instrument over a 3-5 year horizon.

There are several market-based indicators that suggest investors are more focused on a potential recession than persistently high inflation. Exhibit I shows the year-to-date trajectories of various longer-term breakeven inflation rates implied by the U.S. Treasury Inflation-Protected Securities (TIPS) market. Expectations for future inflation remained very optimistic in the face of historically high current prints, even ending the quarter on a downward path and at levels below where they were at the start of the year.

Consistent with projecting lower inflation, the forward rate market suggests investors believe the Fed is already approaching the highest level of rates in this cycle. This can be seen in Exhibit II, where the difference between the actual and forward rate narrowed substantially.

In fact, there is evidence of weakening economic activity in the near-term. Commodity prices have been falling and manufacturing activity has slowed. However, employment and services activity remain strong. Whether an investor is bullish or bearish, there is a data point to support both points of view.

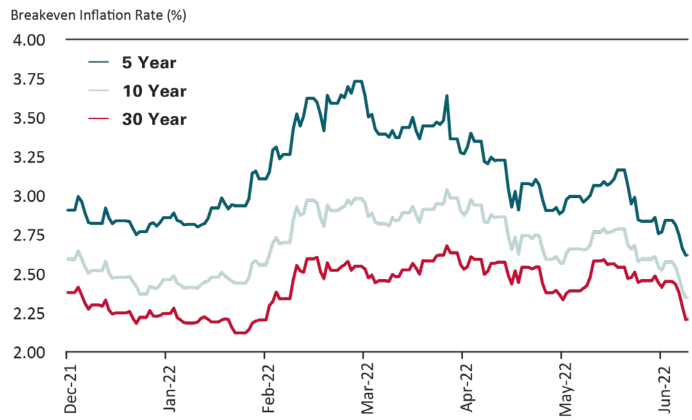
The Compounding Impact of Quantitative Tightening on Top of Fed Rate Hikes

The Fed's quick pivot to a tighter monetary policy regime has produced the most negative impact on financial markets since 1980. In the face of persistently higher-than-forecasted inflation, the Fed's hopes for a gradual tightening of monetary policy gave way to more aggressive action. Treasury rates rose rapidly year-to-date as investors priced in (at the peak) nearly a 3% upward shift in the Fed funds rate.

Meanwhile, the Fed has begun shrinking its balance sheet holdings of Treasuries and mortgage-backed securities (MBS) – up to $48 billion in monthly bond run-offs that would not be reinvested, starting in June. The monthly run off grows to $90 billion per month by September.

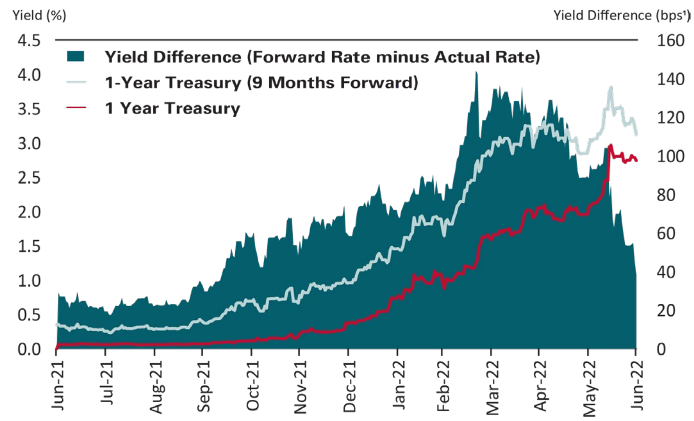
To give a sense of potential impact, Exhibit III shows how the Fed's purchases of agency MBS impacted risk spreads. Not surprisingly, the Fed's plans to purchase agency MBS without regards to compensation drove rates and spread (and by extension, mortgage rates) lower. As the Fed recedes from being a constant and dominant purchaser of agency MBS, risk spreads widen as valuation-sensitive buyers now must absorb the larger volume of available supply. We have specifically avoided exposures of agency MBS in client portfolios for years due to wholly unappealing valuations. This has been a silver lining to client portfolios for two reasons: we invested in opportunities with more appealing valuations and spreads while agency MBS underperformed Treasuries in six out of the last seven years, and we avoided episodes of higher volatility driven by repricing of prepayment and extension risks. The Fed's balance sheet reduction over the next few years will likely put additional pressure on interest rates and spreads, producing more attractive valuations than perhaps any period since 2009 (when the Fed's Quantitative Easing began).

Exhibit I: U.S. TIPS Breakeven Inflation Rates



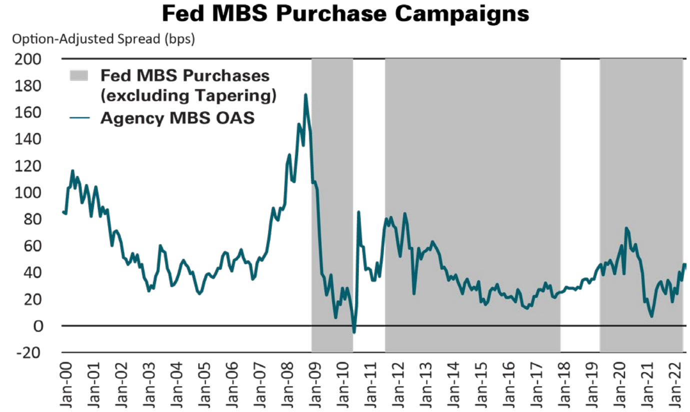
Data reported daily from December 31, 2021 to June 30, 2022
Sources: Bloomberg and BBH Analysis

Exhibit II: 1-Year Treasury Rates – Forward vs. Actual



Data reported daily from June 30, 2021 to June 30, 2022
Sources: Bloomberg and BBH Analysis

Exhibit III: Bloomberg MBS Index OAS vs. Fed MBS Purchase Campaigns



Data reported monthly from January 31, 2000 to June 30, 2022
MBS = Mortgage-Backed Securities
Sources: Bloomberg and BBH Analysis

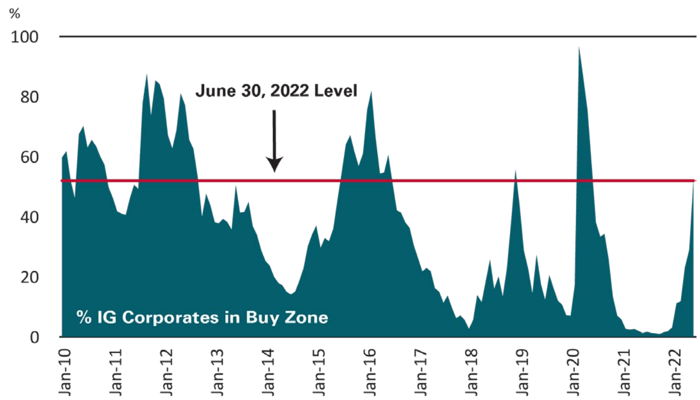
[2] A unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

The Arrival of Compelling Corporate and Structured Credit Valuations

Credit spreads reached compelling levels during the quarter – a rapid reversal from the sparse valuation opportunities at the start of the year. According to BBH's proprietary valuation framework[3], over 50% of the IG corporate bond universe screens as a "buy" on June 30th – meaning credit spreads are at levels that compensate against potential credit losses plus an adequate margin of safety. In other credit segments, including loans, HY corporate bonds, nontraditional asset-backed securities (ABS), and nontraditional commercial mortgage-backed securities (CMBS), we observe attractive valuations that are even more abundant.

The current level of IG corporate spreads has not yet reached the peaks we observed in past credit cycles, but we caution against assuming spreads will continue to rise. In the recent past, spreads have been meaningfully higher only during short-lived periods marked by significant and widespread credit concerns. As Exhibit IV shows, valuations within the IG corporate index have been more compelling than its current level only 27% of the time since January 2010.

Exhibit IV: Percentage of IG Corps in BBH's "Buy Zone"



Data reported monthly from January 31, 2010 to June 30, 2022
As represented by the BofA Merrill Lynch US Corporate Index
IG = Investment Grade
Source: BBH Analysis

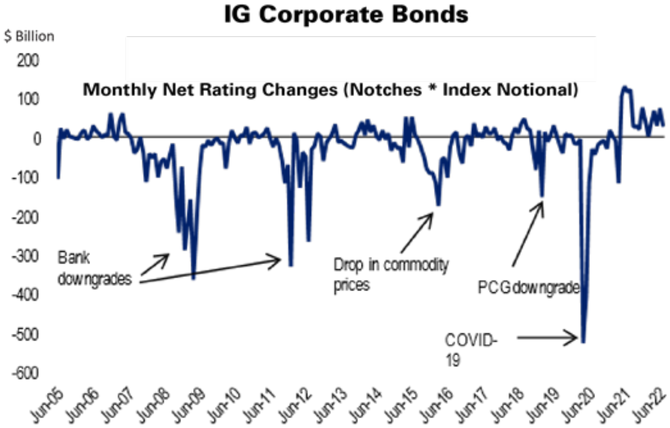
As credit spreads revalued during the interest rate rise in the first half of the year, investors experienced painful, double-barreled price declines. The silver lining is that the credit markets today offer an abundance of opportunities with strong return potential due to the combination of compelling spreads and increasingly attractive yields. In an environment like this, our process leads us to lean into credit, while making sure our in-depth analysis incorporates a full and reasonable range of economic outcomes for each issue we examine. There may be more pain in this cycle, but we believe it makes more sense to earn these spreads than to try to time and "top tick" any higher spreads that may be on the horizon.

Evidence of Credit Durability Abound

We have established that credit markets offer attractive value. The next step in our process involves a careful assessment of each bond's durability characteristics. In reviewing credit positions in client portfolios, we see no degradation of durability or credit concerns so far.

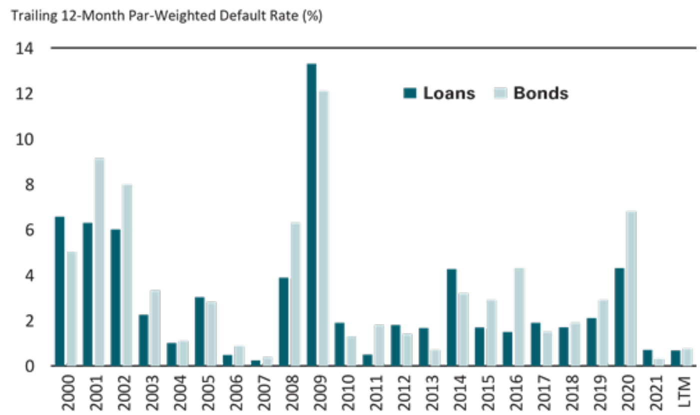
Within the corporate credit markets, we observe upgrades outpacing downgrades in IG corporates, while default rates for senior bank loans and HY bonds remain low. Exhibits V and VI show these respective trends.

Exhibit V: Upgrade-to-Downgrade Ratio – IG Corporate Bonds



Data reported yearly from December 31, 2005 to December 31, 2021 and quarterly through June 30, 2022
IG = Investment Grade
Sources: Bank of America, Moody's Investors Services, S&P, and BBH Analysis

Exhibit VI: Default Rates of Senior Bank Loans and High Yield Bonds



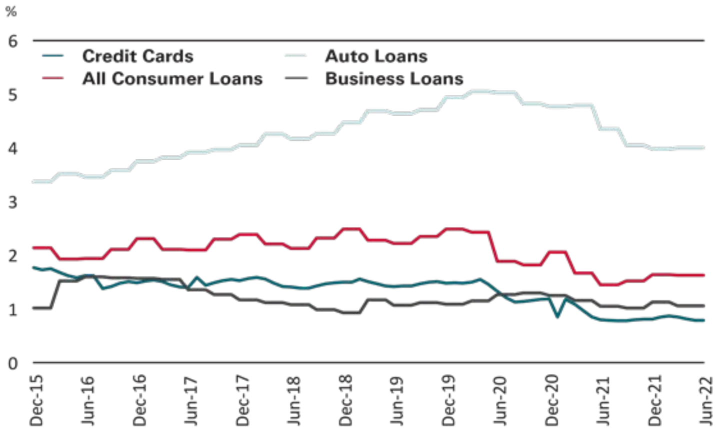
Data reported yearly from December 31, 2000 to December 31, 2021 and year-to-date through June 30, 2022
Sources: Federal Reserve Bank of NY, Bloomberg, and BBH Analysis

Structured credit durability arises from substantial credit enhancements that allow the securities to perform well even through particularly difficult environments. These enhancements remain healthy and are nowhere close to being tapped. If we look at where the earliest signs of where cracks may

[3] 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.

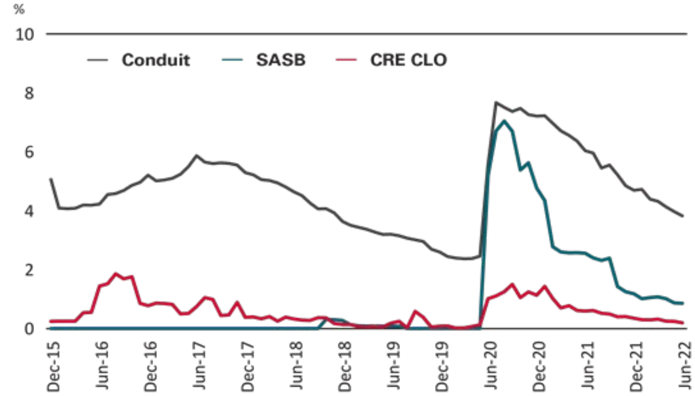
appear – in delinquency rates of loans that comprise some structured credit securities - we find healthy conditions. As Exhibits VII and VIII show, delinquency rates for a variety of ABS and CMBS collateral remain subdued.

Exhibit VII: Delinquency Rates of Various Loans



Data reported monthly from December 31, 2015 to June 30, 2022
Sources: Bloomberg and BBH Analysis

Exhibit VIII: 60+ Day Delinquency Rates of CMBS Structures



Data reported monthly from December 31, 2015 to June 1, 2022
SASB = Single Asset-Single Borrower, CRE CLO = Commercial Real Estate Collateralized Loan Obligation
Sources: Intex and BBH Analysis

The state of credit fundamentals offers a silver lining to a seemingly gloomy market outlook: the environment appears ripe for identifying durable credits[4] at attractive values. If the fundamentals remain solid, this raises the question of what else has caused valuations to become attractive? To address this question, we turn to our final topic.

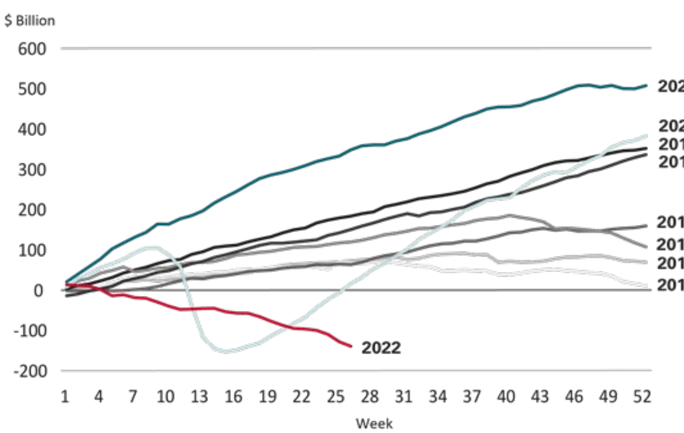
Liquidity, Issuance, and Fund Flows

When discussing how the Fed's quantitative tightening plans may impact the agency MBS market, we observed that supply/demand dynamics will change in a way that should widen spreads significantly – a major source of demand for MBS leaving the market should have that result.

Credit spreads react to shifting supply/demand imbalances as well, and we observed some of these shifts occurring year-to-date. Fixed income fund flows can impact some of these dynamics; during periods of heavy redemption activity, there are more bonds available to be purchased (supply increases). As Exhibit IX shows, the pace of fund outflows in 2022 has been remarkable in both scale and consistency.

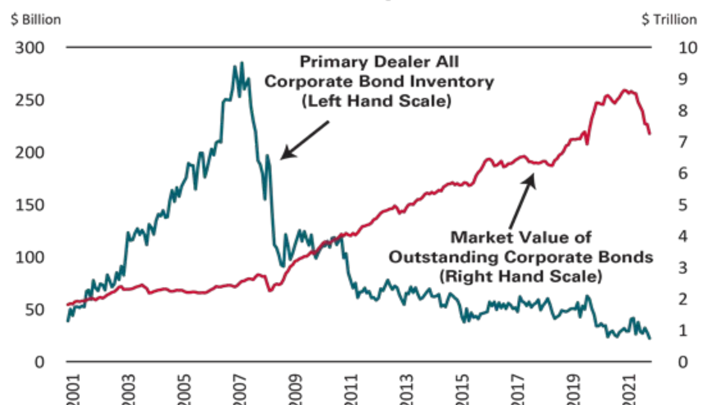
We observe several areas where demand is weakening at the same time. Besides the Fed's waning participation in the market, insurance companies have indicated that higher claims costs impede their ability to invest in the market while bank demand for credit has decreased due to a renewed focus on liquidity and capital needs. Exhibit X demonstrates the weakening appetite for credit among banks, as dealer inventories declined substantially since the Global Financial Crisis while the value of corporate bonds outstanding more than tripled.

Exhibit IX: Cumulative Taxable Bond Fund Flows



Data reported yearly from December 31, 2014 to December 31, 2021 and weekly from January 8 to July 2, 2022
Sources: ICI and BBH Analysis

Exhibit X: U.S. Primary Dealer Inventories vs. Market Value of U.S. Corporate Bond Market

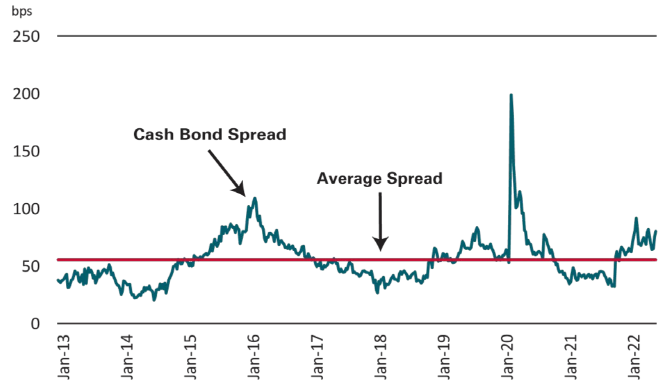


Data reported monthly from July 31, 2001 to June 30, 2022
Sources: Deutsche Bank, Federal Reserve Bank of NY, Bloomberg, and BBH Analysis

[4] 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.

The combination of these forces creates widening risk spreads due to a mismatch between sellers and buyers. Exhibit XI illustrates one way to observe the changes in these spreads between a wide variety of cash bonds and the cost to insure 125 of the most liquid names in the IG indexes. The difference, or liquidity premium, between these two measures stands at levels seen recently only in the March 2020 and 2015-2016 credit cycles. When reviewing our credit positions, the yield advantages are quite compelling, often reaching one or two additional percentage points yield for similar levels of credit risk. As time goes by, investors stand to benefit from that additional yield.

Exhibit XI: IG Cash Bond Spreads over CDX



Data reported weekly from January 23, 2013 to June 29, 2022
IG = Investment Grade, CDX = Credit Default Swap Index, which is a benchmark index that tracks a basket of U.S. and emerging market single-issuer credit default swaps
Sources: Bloomberg and BBH Analysis

One may wonder how these liquidity dynamics impact credits seeking to refinance their debt obligations. We draw a distinction between the liquidity dynamics discussed above and new issuance supply. Issuance in some market segments, such as HY corporate bonds, have been challenged and significantly lower. Structured credit issuance remains strong, and high-grade corporate issuance has been lower than during previous years, but not at worrisome levels.

Our Activity Last Quarter

As valuations improved throughout the quarter, we added credit risk exposure in a diversified manner across corporate and structured credit. We found several attractive on-the-run and niche IG corporate bonds (defined as corporate bonds represented in market indexes) issued by companies in the automotive, banking, electric utility, food and beverage, life insurance, real estate investment trusts (REITs), and property and casualty insurance industries. We added to loan participations in the technology sector and to an asset manager at spreads of +470 to +500 basis points over the 1-Month Term SOFR[5]. We participated actively in high-quality single borrower floating rate CMBS deals at spreads of +200-400 basis points over SOFR. In segments of the non-traditional ABS market, we were active in seven different subsectors, including aircraft equipment, collateralized loan obligations, auto fleet leases, large ticket equipment, personal consumer loans, small ticket equipment, and subprime auto loans, where we found opportunities with spreads ranging from +150-350 basis points over Treasuries for IG securities with strong credit enhancement.

Concluding Thoughts

The debate over the state of the economy will not be resolved until we are well past the peak in vulnerability from higher inflation and tighter monetary policy. However, credit markets at present offer higher yields and attractive compensation against actual credit and liquidity risk. We believe that these assets will outperform as greater certainty about the economy unfolds. It may take a bit longer if we tip into a recession, but, for durable credits, the outcome is the same. While we always move incrementally, valuations suggest that selectively adding credit exposure today is the appropriate course of action.

Portfolio changes over the last 15 months

The Short Duration Fund (A Share Class) returned -1.38% during the second quarter, while the Bloomberg 1-3 Year Treasury Index returned -0.52%.

The Fund's relative performance during the quarter was driven primarily by credit positioning. The biggest detractor to relative results was the Fund's sector positioning. Entering the year, the Fund was positioned conservatively due to unappealing credit valuations. As spreads widened during the first quarter, we began to add credit exposures. Spreads widened more drastically during the second quarter, and we actively increased the Fund's credit weighting to capitalize on increasingly attractive opportunities.

The Fund experienced negative selection results from corporate bonds issued by business development companies (BDCs), electric utilities, and midstream energy companies, positions that detracted during the quarter. The Fund's defensive interest rate risk profile contributed during the quarter as short-term interest rates continued to rise.

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

As we look ahead, the higher absolute interest rate levels and higher credit spreads that hurt year-to-date performance are setting up for attractive return prospects from credit-oriented fixed income. In the short term, credit returns may continue to struggle, but credit risk spreads are already at the top quartile of their historic range and will increasingly provide some insulation from further spread widening.

We identified a corporate bond issued by a food and beverage company that met our stringent durability and valuation criteria for the Fund during the quarter.

The Fund's weight to investment-grade corporate bonds increased by 2% and the Fund's weight to cash reserves declined 2% during the quarter. Corporate debt instruments comprised 80% of the Fund at quarter-end, while municipal and government-related bonds comprised 5%, commercial mortgage-backed securities (CMBS) comprised 2%, and cash reserves represented 12%. The Fund continues to refrain from holding emerging markets debt (EMD). Weight to high yield instruments held steady at 7% during the quarter and was primarily invested in credits in the BB ratings category. Spread duration, a measure of price sensitivity to changes in credit spreads, remained at 1.7 years. Duration decreased slightly to 0.8 years during the quarter. The portfolio is structured to earn a significant yield advantage relative to Index alternatives. The Fund's average risk spread is +150 basis points, while the significantly longer-duration IG corporate index offered +155 basis points and the Bloomberg U.S. Aggregate Index's spread was +55 basis points.

We believe the current environment creates compelling opportunities for fixed income investors yet commands an active approach with careful research and due diligence. Valuations have improved, and while credit fundamentals appear healthy, macroeconomic uncertainties could test the durability of credits. We hope this look at the changing portfolio composition is useful and that it helps relay our overall comments about the investing environment as they relate to the mechanics of the Fund's composition.

Sincerely,

Andrew P. Hofer
Fund Co-Manager

Neil Hohmann, PhD
Fund Co-Manager

Performance
Past performance does not predict future results

Annual Returns

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Class A	1.30%	3.18%	4.09%	1.72%	1.99%	2.50%	-0.58%	1.28%	N/A	N/A
Class I	1.10%	2.97%	3.88%	1.53%	1.80%	2.23%	-0.79%	1.08%	1.20%	5.31%
Benchmark	-0.60%	3.16%	3.59%	1.56%	0.42%	0.86%	0.56%	0.63%	0.36%	0.43%

As of 30/06/2022 — **Average Annual Returns**

	3 Mo.*	YTD*	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception
Class A	-1.38%	-2.58%	-2.47%	1.08%	1.67%	N/A	1.47%
Benchmark	-0.52%	-3.01%	-3.51%	0.18%	0.90%	N/A	0.78%
Class I	-1.43%	-2.68%	-2.67%	0.88%	1.47%	1.52%	2.11%
Benchmark	-0.52%	-3.01%	-3.51%	0.18%	0.90%	0.77%	0.95%

Class A Ongoing Charges: 0.50% Inception date: 31/01/2013
Class I Ongoing Charges: 0.70% Inception date: 25/03/2009
* Returns are not annualized.
The Bloomberg U.S. 1-3 Year Treasury Bond Index is the Fund's benchmark.
The past performance excludes the entry and exit charges. The ongoing charges figure is based on actual expenses for the year ending December 2021. 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 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.
Sources: BBH & Co. and Bloomberg

Share Class Overview
As of 30 June 2022

	ISIN	Inception Date	Total Net Assets (mil)	NAV
Class A	LU0643341745	31/01/2013	$914.9	$11.48
Class I	LU0416171873	25/03/2009	$9.9	$13.20

Credit Quality
As of 30 June 2022

Cash and Cash Equivalents	12.5%
U.S. Treasuries	0.0%
AAA	5.0%
AA	16.3%
A	27.8%
BBB	31.6%
BB or Lower	5.5%
Not Rated	1.4%
Total	**100.0%**

Top 10 Credits
As of 30 June 2022

AON PLC	1.5%
iShares USD Short Duration Corp Bond UCITS ETF	1.4%
FS Investment Corp	1.2%
Heineken NV	1.2%
Business Development Corporation of America	1.2%
AbbVie	1.2%
Blackstone / GSO Secured	1.2%
Skandinaviska Enskilda Banken AB	1.2%
ING Bank NV	1.1%
Citigroup Inc	1.1%
Total	**12.2%**

Reported as a percentage of total portfolio.

Sector Distribution
As of 30 June 2022

Corporate Securities	80.1%
Asset-Backed Securities	0.4%
Commercial Mortgage-Backed Securities	1.8%
Municipal Securities	2.9%
Agency Mortgage-Backed Securities	0.0%
Government-Related	2.1%
Residential Mortgage-Backed Securities	0.1%
Cash and Cash Equivalents	12.5%
Total	**100.0%**

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.

Fund Facts As of 30 June 2022	
Number of Securities Held	208
Effective Duration (years)	0.84
Weighted Average Life (years)	1.84
Yield to Maturity	3.75%

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 fee and expenses.

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

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

Credits: 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.

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.

BofA Merrill Lynch US Corporate Index tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market.

BofA ML US High Yield Corporate Index tracks the performance of U.S. dollar denominated high yield corporate debt publicly issued in the U.S. domestic market.

Bloomberg US Aggregate Bond Index covers the USD-denominated, investment-grade (rated Baa3 or above by Moody's), fixed-rate, and taxable areas of the bond market. This is the broadest measure of the taxable U.S. bond market, including most Treasury, agency, corporate, mortgage-backed, asset-backed, and international dollar-denominated issues, all with maturities of 1 year or more.

Bloomberg US Corporate Bond Index represents the corporate bonds in the Bloomberg US Aggregate Bond Index, and are USD denominated, investment-grade (rated Baa3 or above by Moody's), fixed-rate, corporate bonds with maturities of 1 year or more.

The Bloomberg U.S. 1-3 Year Treasury Bond Index is an unmanaged index of fixed rate obligations of the U.S. Treasury with maturities ranging from 1 to 3 years. The Fund does not measure its performance success nor alter its construction in relation to any particular benchmark or index. The composition of the Bloomberg U.S. 1-3 Year Treasury Bond Index is materially different than the Fund's holdings. The index is not available for direct investment. The Fund is actively managed and does not attempt to mirror any benchmark or index.

Bloomberg Short-Term Corporate Index is an unmanaged index comprised of U.S. dollar denominated, investment grade, fixed rate, corporate securities with a remaining maturity from 1 day up to (but not including) 12 months and have at least $250 million par amount outstanding. Bloomberg US Aggregate ABS Index represents the ABS components of the Bloomberg U.S. Aggregate Index. Bloomberg U.S. 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. Bloomberg US Treasury Bills Index is an unmanaged index comprised publicly-issued U.S. Treasury bills with a remaining maturity from 1 day up to (but not including) 12 months. It excludes zero coupon strips. The indexes are not available for direct investment.

Bloomberg US Corporate High Yield Index (HY Corp) is an unmanaged index that is comprised of issues that meet the following criteria: at least $150 million par value outstanding, maximum credit rating of Ba1 (including defaulted issues) and at least one year to maturity

S&P/LSTA Leveraged Loan Index (Loans) is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market based upon market weightings, spreads and interest payments. Facilities are eligible for inclusion in the indexes if they are senior secured institutional term loans with a minimum initial spread of 125 and term of one year. They are retired from the indexes when "Bloomberg®" and the Bloomberg Capital U.S. 1-3 Year Treasury Bond Index are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Brown Brothers Harriman & Co (BBH). Bloomberg is not affiliated with BBH, and Bloomberg does not approve, endorse, review, or recommend the BBH Luxembourg Funds - BBH Short Duration Fund. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the fund.

Class I Share is an accumulating Class of Shares and, as such, has no distributions. Any income will automatically be included in the value of your investment.

The Class A shares commenced operations on 31 January 2013.

The Class I shares commenced operations on 25 March 2009. Prior to 28 June 2011, the Fund was subject to the Luxembourg Law dated 13 February 2007 relating to specialized investment funds ("SIF"), as amended. As a result, past performance is based on the pre-existing sub-funds of the Company operating as SIFs. Note that performance information for the period in reference may not be representative of the Fund's current structure under the UCITS regime.

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.

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.

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.