Brown Brothers Harriman

BBH Luxembourg Funds - BBH Short Duration

Quarterly Fund Update / 3Q 2023

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

3Q Highlights

- U.S. Treasury rates rose during the third quarter as the U.S. economy appeared to be on strong footing, with investors capitulating to the view that the Federal Reserve will keep rates "higher for longer."
- Favorable selection results had the largest impact on the Fund's relative performance during the quarter, and sector allocation was further additive to performance.
- Despite waning opportunities in the credit markets, we identified numerous new opportunities for the Fund during the quarter.

Performance
Past performance does not predict future results

Annual Returns										
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
BBH Short Duration Class A	-13.28%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%
BBH Short Duration Class I	-13.28%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%
Bloomberg US 1-3 Year Treasury Bond Index	-13.01%	-1.54%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%

As of 30 September 2023

	Total Returns		Average Annual Total Returns				
Fund/Benchmark	3 Mo	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception
BBH Short Duration Class A	1.61%	4.50%	5.78%	1.87%	2.36%	1.96%	1.83%
Bloomberg US 1-3 Year Treasury Bond Index	0.71%	1.69%	2.44%	-0.92%	1.03%	0.79%	0.77%
BBH Short Duration Class I	1.23%	4.01%	5.24%	1.56%	2.09%	1.72%	2.27%
Bloomberg US 1-3 Year Treasury Bond Index	0.49%	1.48%	2.22%	-0.99%	0.99%	0.77%	0.92%

Class A Inception: 31/01/2013 Class I Inception: 25/03/2009
Class A Ongoing Charges: 0.50% Class I Ongoing Charges: 0.70%
Returns of less than one year are not annualized

The past performance excludes the entry and exit charges. The ongoing charges figure is based on actual expenses for the year ending December 2022. 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. 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

U.S. Treasury rates rose during the third quarter. The U.S. economy appears to be on strong footing, and investors are capitulating to the view that the Federal Reserve (Fed) will need rates to be "higher for longer." The Fed hiked the target range of the federal funds rate by 0.25% to 5.25%-5.50% at its July meeting. The Fed's next announcement is scheduled for November 1st. In addition, the Fed continued its campaign of shrinking its portfolio of assets acquired through open market operations by a maximum of $95 billion per month.

On a duration-adjusted basis, nearly every credit index earned positive excess returns during the quarter, though agency mortgage-backed securities (MBS) were a noteworthy underperformer (see Exhibit I). Indexes tied to floating rate investments and with shorter durations experienced positive total returns despite the rise in rates. Long maturity corporate bonds (those with 10+ years until maturity) also had strong excess returns during the quarter.

Year-to-date, all credit indexes had positive excess returns except for agency MBS. Non-agency commercial mortgage-backed securities (CMBS) slightly out-performed comparable duration Treasuries despite negative headlines regarding commercial real estate (CRE). Indexes of investment-grade corporate bonds, senior bank loans, high yield corporate bonds, nontraditional asset-backed securities (ABS), and collateralized loan obligation (CLO) debt posted strong excess returns.

Valuations

The strong recent performance of credit instruments has caused valuations to weaken. According to our valuation framework,[1] the number of investment-grade corporate bonds that screened as a "buy" decreased to 32% and the number of high yield corporate bonds screened as a "buy" decreased to 33%. Within the investment-grade corporate bond market, we find most opportunities in short and intermediate duration segments of single-A and triple-B rated bonds, as well as nontraditional issuances that do not meet index inclusion criteria but offer compelling valuation while meeting our credit criteria. In the high yield corporate bond market, there are many opportunities among smaller issuers in the double-B and single-B rated markets. However, our valuation framework identifies plenty of "hold" and "sell" candidates in those ratings categories, so there are numerous value traps and valuation-sensitive selection remains imperative.

In the structured credit markets, we are finding an abundance of attractively valued opportunities as we observe a continuing disconnect between wider credit spread levels and solid credit performance (see Exhibit II). Issuances of select non-traditional ABS, Single Asset, Single Borrower (SASB) CMBS, and CLO debt have come with attractive com-

Exhibit I: Fixed Income Indexes Returns

Index	Duration (Years)	Total Return (%) QTD	Total Return (%) YTD	Excess Return (%) QTD	Excess Return (%) YTD
Morningstar LSTA Leveraged Loan Index[1]	0.3	3.46	10.19	2.13	6.47
Palmer Square CLO Debt Index[1]	0.3	5.30	12.83	3.97	9.11
Bloomberg 2 Year U.S. Treasury Bellwether Index	1.8	0.57	1.14	–	–
Bloomberg ABS ex Stranded Cost Utilities Index	1.9	0.84	2.35	0.19	0.60
Bloomberg U.S. Corporate High Yield Index	3.5	0.46	5.86	1.02	5.16
Bloomberg Non-Agency CMBS Index	3.8	-0.23	0.23	0.66	0.07
ICE BofA AA-BBB US Misc. ABS Index[2]	3.9	0.88	4.81	2.09	5.36
Bloomberg Intermediate Corporate Index	4.0	-0.96	1.35	0.12	1.36
Bloomberg U.S. TIPS Index	5.0	-2.60	-0.78	–	–
Bloomberg U.S. Treasury Index	5.9	-3.06	-1.52	–	–
Bloomberg EM USD Aggregate Index	5.9	-2.31	0.91	0.80	2.59
Bloomberg Aggregate Index	6.1	-3.23	**-1.21**	**0.00**	**0.50**
Bloomberg MBS Index	6.4	-4.05	-2.26	-0.85	-0.58
Bloomberg U.S. Corporate Index	6.8	-3.09	0.02	0.84	2.37
Bloomberg 10 Year U.S. Treasury Bellwether Index	8.0	-5.12	-3.43	–	–
Bloomberg Taxable Municipal Index	9.3	-4.90	-0.12	1.45	4.27
Bloomberg Long Corporate Index	12.5	-7.23	-2.71	2.18	4.22

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 30 September 2023

Sources: Morningstar, JPM, Bloomberg, and BBH Analysis

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	Valuations improving in parts of the market	No positions in portfolios; prepared to add opportunistically
RMBS	Continued credit and valuation concerns	No positions in portfolios
CMBS	Traditional conduits unattractive, select SASB issuances attractive	Hold positions in fixed- and floating-rate SASB CMBS deals with strong property-level transparency
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	Find value in short and intermediate index-eligible bonds and select nontraditional bonds	Holdings include intermediate maturity credits issued by banks, business development companies, property and casualty insurers, and life insurers
HY Corporate Bonds	Roughly one-third of universe screens as "buy" with most being bonds of smaller issuers	Holdings are diversified and include credits issued by midstream energy, electric utilities, and specialized REITs
Other Credit		
Emerging Markets	Concerns remain about creditor rights in most emerging market countries	No positions in portfolios

As of 30 September 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.

pensation and strong durability and structural protections. Opportunities are emerging in parts of the agency MBS market as valuations improve, and we are prepared to add positions.

Non-agency residential mortgage-backed securities (RMBS) continue to suffer from lower durability, thin credit enhancement, and prepayment risk. We continue to avoid emerging markets credits due to concerns regarding creditor rights in most countries.

Performance

Favorable selection results had the largest impact on the Fund's relative performance (see Exhibit III). Positions in investment-grade corporate bonds issued by business development companies (BDCs), banks, life insurers, and electric utilities had notable contributions during the quarter. Holdings of high yield corporate bonds issued by property and casualty (P&C) insurers and technology companies enhanced relative results further.

Exhibit III: Fund Attribution

	Average Weight (%)	Contribution (Basis Points - Gross)		
	Portfolio	Rates	Sector	Selection
Total Portfolio	100%	70	13	92
U.S. Treasury	0.3%		0	0
Cash and Reserves	5.6%		0	0
Government-Related	1.0%		0	0
Municipal	2.2%		-2	-1
U.S MBS	0.1%		0	0
CMBS	1.1%		1	-1
ABS	0.2%		0	0
IG Corporate Bonds	80.8%		15	72
HY Corporate Bonds	8.7%		0	22

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

Sector allocation also influenced performance favorably, as the Fund benefitted from its emphases on investment grade corporate bonds. Interest rates had a large impact on total returns but a muted impact on benchmark-relative results.

Transaction Summary

We purchased bonds from banks, a life insurer, and a metals and mining company during the quarter. One notable addition during the quarter involved bonds issued by **Corebridge Financial Inc**, a life insurance company that was spun off from AIG, and benefits from significant scale and diversification. Their credit strength is derived from an excellent balance sheet, brand recognition, diverse product mix, excellent liquidity, and strong underwriting. We bought the new issue, 5 year, A+ rated notes at a spread of 149 basis points[2] over Treasuries.

Characteristics

At the end of the month, the Fund's duration was 0.9 years (see Exhibit IV). High yield investments represented 8.2% and were comprised primarily of credits rated double-B. Yield to maturity was 6.7% and remained elevated versus short-term bond market alternatives. The Fund's option-adjusted spread (OAS) was 142 basis points over Treasuries; for reference, the longer-duration Bloomberg U.S. Corporate Index's OAS was 121 basis points over Treasuries at month-end.

Exhibit IV: Fund Characteristics

Portfolio Characteristics	Portfolio	Benchmark	Active
Effective Duration (Years)	0.85	1.75	-0.90
Spread Duration (Years)	1.67	0.00	1.67
Yield to Maturity (%)	6.72	5.14	1.58
Option-Adjusted Spread (bps)	142	0	142

Credit Rating (%)	Portfolio	Benchmark
AAA/TSY/Cash	13.4	100.0
AA	14.0	0.0
A	31.2	0.0
BBB	33.3	0.0
BB	7.3	0.0
B	0.9	0.0
CCC & Below/NR	0.0	0.0

Sector Allocation (%)	Portfolio	Benchmark	Active
U.S. Treasury	0.0	100.0	-100.0
Reserves	9.2	0.0	9.2
Government-Related	1.0	0.0	1.0
Municipal	2.0	0.0	2.0
MBS (Agency)	0.1	0.0	0.1
CMBS	1.1	0.0	1.1
ABS	0.2	0.0	0.2
IG Corporate Bonds	78.3	0.0	78.3
HY Corporate Bonds	8.1	0.0	8.1

Portfolio holdings and characteristics are subject to change.
Bloomberg US 1-3 Year Treasury Bond Index
Data reported as of 30 September 2023
TSY = Treausury; MBS = Mortgage-Backed Securities; CMBS = Commerical Mortgage-Backed Securities; ABS = Asset-Backed; IG = Investment Grade; HY = High Yield
Source: BBH Analysis

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

Conclusion

Higher interest rates will ultimately bring higher returns for credit investors. We caution that a strong economy should not be the basis for investor credit decisions. Higher-for-longer interest rates will eventually weigh on many borrowers. Instead, we focus on durable credits[3] which is a hallmark of our process. Thank you for your continued trust, and we look forward to our conversations over the coming weeks.

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

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.

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.

[3] 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.

Bond prices may be sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices. Investing in the bond market is subject to certain risks including market, interest-rate, issuer, maturity, call, credit, and investments may be worth more or less than the original cost when redeemed.

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.

Either Brown Brothers Harriman or FundRock may terminate arrangements for marketingunder the denotification process in the new Cross-border Distribution Directive (DirectiveEU) 2019/1160.

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") 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. The contact details of the Company's representatives in the countries wherethe Company is registered are porvided below in the section for each country.

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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.

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

Not FDIC Insured **No Bank Guarantee** **May Lose Money**

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