

## CAPITAL PARTNERS

# BBH Luxembourg Funds - BBH Core Select Quarterly Update | 4Q 2024

### Highlights

- During fourth quarter 2024, most portfolio companies in the BBH Luxembourg Core Select Fund (the Fund) reported third quarter 2024 results and provided near- and longer-term guidance.
  - The financial results of the portfolio companies in the Fund were strong on an absolute basis and compared favorably to the benchmark S&P 500 Index (the Index).
  - We would characterize forward guidance by the portfolio companies in the Fund as increasingly cautiously near term and highly confident medium to longer term.
- During the quarter, while market breadth significantly increased beyond mega-cap technology companies, stock price performance was heavily influenced by returns of lower-quality companies (both deeper value and less profitable hyper-growth index constituents), as easing by central banks and other stimulus fed an appetite of increased risk.
- On a total return basis, the Fund lost 3.18% in the fourth quarter of 2024, while the Index increased 2.41%. The largest detractor to performance within both the Fund and Index was the broader healthcare sector, which underperformed by approximately 12.5%.
- We remain pleased with the year-to-date fundamental performance of our portfolio, which has been strong on both an absolute and relative basis, continuing trends we have seen for some time. Fundamental performance driving economic value creation remains very favorable for the strategy on an absolute basis and relative to the Index, as does relative valuation, against a backdrop of very full absolute valuation level.
- While we view the next few months with caution, it's the strong fundamental performance and superior valuation of our portfolio companies that we are most pleased about. This is the source and driver of our conviction in the long-term return potential the Fund offers our clients.

### Market overview

During fourth quarter 2024, most companies in the Index reported third quarter 2024 results and provided near and longer-term guidance. Companies in the Index combined to report mixed results in third quarter 2024, with strong growth in earnings contrasting with more modest results in free cash flow generation. Through the third quarter, net earnings per share (EPS) of the companies in the Index grew a healthy 8.3%; however, free cash flow per share growth for the Index was a more pedestrian 4.3% and relative to near-term expectations. If fourth quarter consensus is met, earnings for 2024 for the Index would finish the year up approximately 8.0% and free cash flow to equity would be down approximately 0.8%.

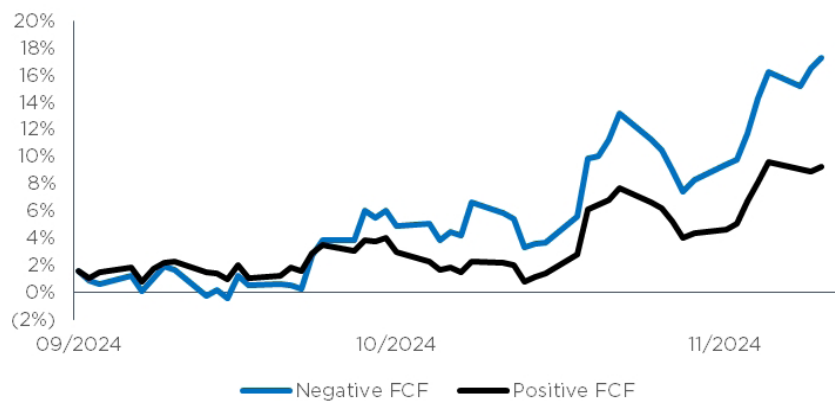
**This is a marketing communication. Please refer to the prospectus of the fund and the KIID/KID before making any final investment decisions.**

The largest detractor (-117 basis points [bps])<sup>1</sup> to total return was the broader healthcare sector, which investors shunned in favor of high-growth tech stocks. Election uncertainties, created by Robert F. Kennedy Jr.'s nomination to head the Department of Health and Humans Services (HHS), as well as generally weak earnings, weighed heavily on the sector at the end of last year and could continue to cause volatility in the near term.

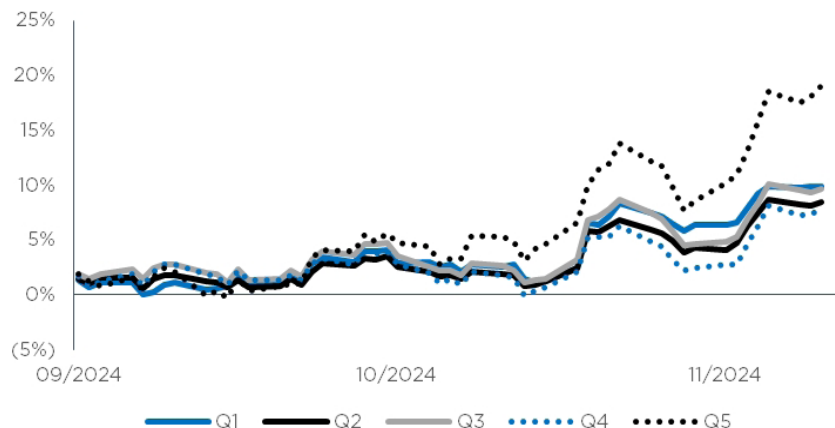
During the quarter, Index returns were heavily influenced by the outsized stock price performance of lower quality companies, both deeper value and less profitable hyper-growth Index constituents, as easing by central banks and other stimulus fed an appetite of increased risk. These stimulative actions were deemed to disproportionately benefit companies that are a poor fit with our investment criteria and ones we seek to avoid, both by the strategic design of our investment criteria and its diligent implementation, in our effort to produce durable absolute and relative returns over the long term and fundamentally outperform during periods of economic or market stress.

Specifically, within the Index, companies in the lowest-quality quintile of operating margin, return on equity and net income, and free cash flow growth have materially outperformed those in higher-quality cohorts of each metric. These have combined to produce a non-quality rally that has few, if any, true parallels and that some would suggest is indicative of extreme risk-taking.

**Cumulative Performance by Free Cash Flow  
Positive or Negative  
18 September 2024 to 29 November 2024**



**Cumulative Performance by Operating Margin Quintile  
18 September 2024 to 29 November 2024**



Source: Trivariate Research Partners

**Past performance does not guarantee future results.**

<sup>1</sup>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.

Regardless of the mixed and rather subdued outlook provided by reporting companies, the Index continued to build on its incredibly robust stock price performance over the past 18 months: The S&P 500 posted a further gain of 2.41% during fourth quarter 2024 to end the year up almost 25%. The strong stock price performance of the Index was led by four sectors: consumer discretionary (+14.3%) led the way, with communication services (+8.9%), financials (+7.1%), and information technology (+4.8%) rounding out the positive contributors. In aggregate, these sectors contributed approximately 450 bps on an absolute basis to total return. Lower levels of concentration and a meaningful rotation away from high-quality growth companies were the key themes during the past three months.

### Portfolio commentary

During fourth quarter 2024, most portfolio companies in the Fund reported third quarter 2024 results and provided near- and longer-term guidance. The financial results of the portfolio companies in the Fund were strong on an absolute basis, with net earnings and free cash flow per share growing 19.3% and 18.3%, respectively, during the first nine months of the year. This compared very favorably to the fundamental performance of the Index, where net earnings and free cash flow per share increased 8.3% and 4.3%, respectively, continuing a multi-year period of fundamental outperformance. To that end, our portfolio companies have executed well and have produced solid growth and fundamental economic performance while maintaining appropriately conservative capital structures. These achievements are evident at the aggregate portfolio level, where we have observed attractive growth in revenue, cash flow, and earnings, superior profit margins, returns on capital, and healthy balance sheets.

#### CALENDAR YEAR ENDING 2023

Free cash flow per share	2024 / Q3 YTD	1 y-o-y	3 yr. CAGR	4 yr. CAGR	5 yr. CAGR
<b>Fund</b>	18.3%	18.9%	10.5%	12.6%	9.8%
<b>S&amp;P 500</b>	4.3%	-3.1%	5.2%	5.7%	5.1%
<b>S&amp;P 500 equal weighted</b>	5.7%	6.0%	5.2%	4.8%	6.0%

Net earnings per share	2024 / Q3 YTD	1 y-o-y	3 yr. CAGR	4 yr. CAGR	5 yr. CAGR
<b>Fund</b>	19.3%	15.0%	16.3%	15.9%	10.9%
<b>S&amp;P 500</b>	8.3%	-1.4%	16.7%	8.0%	6.7%
<b>S&amp;P 500 equal weighted</b>	2.5%	1.9%	22.8%	8.1%	7.6%

*Past performance does not guarantee future results.*

We maintained a modest level of cash at the end of the quarter, and this is a necessary by-product of our valuation discipline. Specifically, we have and will continue to trim and sell portfolio companies when valuations increase to levels we believe to be in excess of the range of reasonable economic outcomes implied by current stock prices. Conversely, we may add new portfolio companies that meet our investment criteria and may add to existing portfolio company positions when valuations are at levels we believe to be attractive in light of the range of reasonable economic outcomes implied by current stock prices. While we remain focused on finding new investments that meet our investment criteria and are attractively valued, we do so in the context of a market environment we view as challenged, with risks evident on many fronts.

Over any period of time, stock prices reflect the confluence of many factors as well as the perspectives of myriad other investors, both active and passive, that do not share our perspectives on risk, fundamental economic value creation, or how to properly measure it. Regardless of these other views, over the long term, we believe that it is a reasonable and an economically sound premise that the price of stocks should follow their growth in free cash flow per share and that attractive valuations support economic upside and mitigate risk. Consequently, that will remain our focus as we seek to deliver both strong absolute and relative after-tax returns over the long term.

## Portfolio activity

During the quarter, we made several portfolio rebalancing trades reflective of relative valuation opportunities, risk, and fit with our investment criteria. Turnover during the quarter was less than 1%, reflecting our caution with high market expectations and valuations at a very full level.

We trimmed positions in **Berkshire Hathaway** and **Booking Holdings**, based on strength in performance and to manage overall portfolio balance and weightings. **Applied Materials**, a company we have a high degree of conviction and confidence in with their long-term outlook, experienced continued share price weakness, which gave us the opportunity to add to our position.

### HOLDINGS (AS OF 31 DECEMBER 2024)

Holding	Sector	Weight (%)
Alphabet Inc (Class C)	Communication services	8.28
Microsoft Corp	Information technology	7.29
Mastercard Inc	Financials	6.25
Oracle Corp	Information technology	5.97
Linde PLC	Materials	5.25
KLA Corp	Information technology	4.83
Costco Wholesale Corp	Consumer staples	4.75
Amazon.com Inc	Consumer discretionary	4.53
Arthur J Gallagher & Co	Financials	4.47
Waste Management Inc	Industrials	4.31
Alcon Inc	Health care	3.88
Booking Holdings Inc	Consumer discretionary	3.86
Adobe Inc	Information technology	3.33
S&P Global Inc	Financials	3.27
Zoetis Inc	Health care	3.21
Thermo Fisher Scientific Inc	Health care	3.01
Automatic Data Processing Inc	Industrials	2.90
Abbott Laboratories	Health care	2.82
Texas Instruments Inc	Information technology	2.64
Progressive Corp	Financials	2.56
Berkshire Hathaway Inc (Class A)	Financials	2.15
UnitedHealth Group Inc	Health care	2.01
Applied Materials Inc	Information technology	1.93
Otis Worldwide Corp	Industrials	1.78
NIKE Inc (Class B)	Consumer discretionary	1.79
US Dollar		1.71
Cadence Design Systems Inc	Information technology	1.22

Holdings are subject to change.

## Outlook

At the end of fourth quarter 2024, we held positions in 26 companies with the ten largest holdings accounting for 56% of total assets. The Fund was trading at approximately 97% of our underlying estimate of intrinsic value, which compares to approximately 114% for the Index.

In our view, today's market environment warrants caution. Current valuations are full to overflowing on most traditional metrics, as well as our preferred intrinsic value methodology. In addition, current market expectations for growth appear robust to us: Consensus expectations for earnings growth for the Index are approximately 15% for

2025. While these estimates are plausible, they are high relative to both recent levels of performance and longer-term normalized rates of growth. While we remained focused on finding new investments that meet our investment criteria, we will do so in the context of a market environment we view as challenged.

To conclude, our portfolio companies have executed well and have produced solid growth and fundamental economic performance while maintaining appropriately conservative capital structures. Given the near- and longer-term outlooks provided by the companies in the Fund, we are optimistic that these strong trends will continue and that the differentiated financial attributes will be better recognized by other investors in the future, improving the stock price performance of the Fund relative to the Index over time.

Thank you for your interest in the BBH Luxembourg Core Select Fund. Please reach out if you have any questions.

## BBH Large Cap Equity Team

Hayley Xuereb, Chris Stonerook, Anurag Dhanwantri, Eric Yeh, Mark Weber, Rohit Mitter, and Scott Hill

PERFORMANCE	Past performance does not predict future results								
	2024	2023	2022	2021	2020	2019	2018	2017	2016
Class I	14.83%	22.71%	-21.33%	26.19%	12.17%	28.81%	-7.75%	18.76%	7.65%
Class R[i]	14.83%	22.71%	-21.33%	26.24%	12.18%	28.80%	-7.75%	18.73%	7.65%
Class X	14.19%	22.04%	-21.76%	25.54%	11.56%	28.09%	-8.25%	18.11%	7.06%
S&P 500	25.02%	26.29%	-18.11%	28.71%	18.40%	31.49%	-4.38%	21.83%	11.96%

As of 31/12/2024	Total returns			Average annual total returns			
	3 mo.	YTD	1 yr.	3 yr.	5 yr.	10 yr.	Since inception
Class I	-3.18%	14.83%	14.83%	3.49%	9.43%	8.72%	11.46%
Class R[i]	-3.18%	14.83%	14.83%	3.49%	9.44%	8.72%	10.35%
Class X	-3.32%	14.19%	14.19%	2.93%	8.84%	8.12%	9.65%
S&P 500	2.41%	25.02%	25.02%	8.94%	14.53%	13.10%	14.68%

Class I Inception: 28/01/2009

Class R[i] Inception: 21/10/2011

Class X Inception: 10/07/2012

Class I and Class R[i] ongoing charges: 1.15%

Class X ongoing charges: 1.70%

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. The entry charge is 5% of the initial price or subscription price. Fund shares redeemed within 30 days of purchase may be subject to an exit charge of 2%. The entry and exit charges shown are maximum figures. In some cases you may pay less. Past Performance has been calculated in USD. Performance can be increased or reduced as a result of currency fluctuations.

Classes I, R[i], and X Shares are accumulating Classes of Shares and, as such, have no distributions. Any income will automatically be included in the value of your investment.

The S&P 500 is an unmanaged weighted index of 500 stocks providing a broad indicator of stock price movements. The composition of the index is materially different than the Fund's holdings. The index is not available for direct investment.

Sources: BBH & Co. and S&P

## SHARE CLASS OVERVIEW (AS OF 31 DECEMBER 2024)

	ISIN	Inception date	Total net assets (mil)	NAV	Upside / Downside capture <sup>1</sup>
<b>Class I</b>	LU0407242659	28/01/2009	\$294.5	\$56.77	87.0% / 104.1%
<b>Class R[i]</b>	LU0527403801	21/10/2011	\$20.2	\$36.88	87.0% / 104.1%
<b>Class X</b>	LU0643341406	10/07/2012	\$2.7	\$31.63	

<sup>1</sup> Upside / Downside capture ratio is an annualized 5-year rate, net of fees. Both compare an investment's performance against its benchmark during periods when the benchmark's performance is positive or negative.

### Equity weighting

#### As of 31 December 2024

Common stock	98.3%
Cash and cash equivalents	1.7%
Other assets in excess of liabilities	0.0%
<b>Total</b>	<b>100.0%</b>

### Fund facts

#### As of 31 December 2024

Total net assets (mil)	\$333.1
Number of securities held	27
Average P/E	29.4
Average market cap (bil)	\$619.4

Excludes cash equivalents.

### Sector weighting

#### As of 31 December 2024

Communication services	8.4%
Consumer discretionary	10.3%
Consumer staples	4.8%
Energy	0.0%
Financials	19.0%
Health care	15.2%
Industrials	9.2%
Information technology	27.7%
Materials	5.3%
Real estate	0.0%
Utilities	0.0%
<b>Total</b>	<b>100.0%</b>

Reported as a percentage of portfolio securities, excluding cash and cash equivalents.

### Top 10 companies

#### As of 31 December 2024

Alphabet Inc	8.3%
Microsoft Corp	7.3%
Mastercard Inc	6.2%
Oracle Corp	6.0%
Linde PLC	5.2%
KLA Corp	4.8%
Costco Wholesale Corp	4.8%
Amazon.com Inc	4.5%
Arthur J Gallagher & Co	4.5%
Waste Management Inc	4.3%
<b>Total</b>	<b>55.9%</b>

Reported as a percentage of total portfolio.

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

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

Price/Earnings (P/E) ratio is a company's current share price divided by earnings per-share.

Purchase and sale information provided should not be considered as a recommendation to purchase or sell a particular security and that there is no assurance, as of the date of publication, that the securities purchased remain in a fund's portfolio or that securities sold have not been repurchased.

Opinions, forecasts, and discussions about investment strategies represent the author's views as of the date of this commentary and are subject to change without notice. References to specific securities, asset classes, and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as recommendations.

The composition of the index is materially different than the Fund's holdings. The Fund is actively managed and does not measure its performance success or alter its construction in relation to any particular benchmark or index. The index is not available for direct investment.

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

**The Company's address in Luxembourg is 6, route de Trève, L-2633 Senningerberg, Grand Duchy of Luxembourg (Tel.: +1-800-625-5759).**

### **For Prospective Investors Domiciled in the UK:**

**The Fund is duly registered with the UK Financial Conduct Authority. The representative agent of the Fund in the UK is BBH ISL Tel: +44-207-614-2113.**

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

**The Fund is duly registered with the German Federal Financial Supervisory Authority, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). The representative agent of the Fund in Germany is Société Générale (Dejan Djurdjevi - Tel.: +49 (0) 69 7174 497).**

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

## RISKS

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

The value of a security may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods or services.

The Fund is 'non-diversified' and may assume large positions in a small number of issuers which can increase the potential for greater price fluctuation.

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

**Complete information on the Fund's risks and expenses can be found in the prospectus, which you should read carefully before investing.**

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



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