BBH Partner Fund – International Equity

Quarterly Fund Update / 3Q 2022

For the third quarter ended September 30, 2022, the BBH Partner Fund – International Equity (the "Fund") returned -12.85%. Over the same period, the MSCI EAFE Index[1] (the "Index") returned -9.36%.

Select Equity Group, L.P., the Fund's sub-adviser, assumed management of the Fund on February 24, 2017. Since that date through September 30, 2022, the Fund has generated a net annualized return of +2.11%, outperforming the Index's annualized return of +1.62% by approximately +50 basis points[2] ("bps") per annum, and a net cumulative return of +12.53%, outperforming the Index's cumulative return of +9.53% by approximately +300 bps. Since the Fund's inception on April 1, 1995 through September 30, 2022, the Fund has generated a net annualized return of +4.38%, outperforming the Index's annualized return of +3.95% by approximately +40 bps, and a net cumulative return of +225.36%, outperforming the Index's cumulative return of +190.54% by approximately +3,500 bps.

Performance
As of September 30, 2022

	Total Returns		Average Annual Total Returns			
	3 Mo.*	YTD*	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Class I	-12.85%	-34.07%	-33.88%	-3.57%	-0.10%	3.52%
MSCI EAFE Index	-9.36%	-27.09%	-25.13%	-1.83%	-0.84%	3.67%

Class I: Total Expense Ratio (%): 0.68

* Returns are not annualized.

Performance data quoted represents past performance. Past performance does not guarantee future results, and current performance may be lower or higher than the past performance data quoted. The investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than the original cost. For the most recent month-end performance, call 1 (800) 625-5769. *Fund shares redeemed within 30 days of purchase are subject to a redemption fee of 2.00%.*

Sources: BBH & Co. and MSCI EAFE

Introduction

The third quarter of 2022 played out as a tale of two halves, as investors continued to debate the relative importance of bottom-up company fundamentals versus top-down macroeconomic concerns. For most of July and August, equities overall were up modestly, while the shares of high-quality growth companies outperformed the MSCI ACWI ex US Index[3] significantly. From July 1st through August 12th, the MSCI ACWI ex US Index overall gained approximately +5.4%, while the Fund gained +8.8% net. This stretch included quarterly earnings results for the vast majority of listed companies, including those in our portfolio. Notably, we continued to be pleased with the fundamental performance of our holdings during the quarter. Our portfolio companies grew their revenues by an average of 19% year over year (YoY), while their operating profits grew by an average of 20% versus the prior-year period. With an average operating profit margin in the 25%-30% range, our holdings continue to be significantly more profitable than most publicly traded companies. Notably, their profit margins continued to expand in the quarter on average, despite the inflationary cost pressures currently plaguing so many global businesses — most of which lack the pricing power required to offset these headwinds.

After earnings season, investors once again refocused on macroeconomic concerns. The early September Consumer Price Index (CPI) inflation report in the US caused equity market sentiment to pivot back to a "risk-off" posture, resulting in near double-digit declines for the Index both for the month of September and for the third quarter overall. The share prices of growth companies fell disproportionately in September, somewhat irrespective of their absolute quality or, in the case of our holdings, their recent strong fundamental results. With our businesses having grown their revenues, profits and cash flows at high-teens rates thus far in 2022, yet with their share prices down nearly -30% over the same time frame, the valuation disconnect between our companies' share prices and our estimates of their intrinsic values[4] ended the quarter wider than at any other point in the strategy's history. Meanwhile, non-US foreign currencies are now historically undervalued on a purchasing power parity basis versus the US dollar, which has continued to strengthen this year amid the global flight to perceived safety. With our businesses continuing to grow profits strongly, their share prices trading at the widest discount to our estimate of intrinsic value in more than a decade and many of them denominated in currencies that are themselves 25%-50% undervalued versus the USD, we ended the quarter substantially fully invested.

[1] The MSCI EAFE Index is designed to represent the performance of large and mid cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, and excluding the US and Canada. The Index is available for a number of regions and market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries. The Index is not available for direct investment.

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

[3] The MSCI ACWI ex US Index represents large and mid cap securities across 22 developed-market countries (excluding the US) and 25 emerging-market countries. The Index covers approximately 85% of the global equity opportunity set outside the US. The Index is not available for direct investment.

[4] SEG's estimate of the present value of the future cash flow that a business will generate over its remaining life.

Performance Review

In the third quarter of 2022, no positions contributed more than +0.20% to the Fund's gross performance. Conversely, we had 17 positions that detracted greater than -0.20% each, seven of which detracted more than -0.50% each.

Top 10 Companies As of September 30, 2022	
Brookfield Asset Management Inc	4.9%
AIA Group Ltd	4.5%
JD.com Inc	4.2%
Safran SA	4.1%
CRH PLC	4.1%
PerkinElmer Inc	4.0%
Fidelity National Information Services	3.9%
Constellation Software Inc	3.5%
Alcon Inc	3.4%
Keyence Corp	3.2%
Total	**39.8%**

Reported as a percentage of total portfolio. Holdings are subject to change.

Our largest contributor to performance in the third quarter was **Worldline** (WLN FP), which we wrote about in the fourth quarter of 2021 while building our initial position. As a brief refresher, Worldline is the largest provider of non-cash payment processing solutions to consumer-facing merchants in Europe. The Company benefits from the ongoing secular conversion of cash payments to digital methods, a trend that remains surprisingly nascent, particularly in Europe. Prior to a COVID-19-driven slowdown in consumer spending in 2020, Worldline had grown organic revenue by mid-single digits over the preceding five years with mid-teens profit margins; since the pandemic, top-line growth has recovered to double-digit rates, which we expect to normalize back to a high-single-digit clip going forward. During the most recent quarter, Worldline reported particularly strong results for the first half of 2022 with total revenue, earnings before interest, taxes, depreciation and amortization (EBITDA) and earnings per share (EPS) up 19%, 23% and 29% YoY, respectively. Management attributed this outperformance to a variety of tailwinds, including robust travel demand, a return to in-store shopping and competitive share gains — all of which were amplified by inflation, which raises Worldline's transaction values. Additionally, management confirmed the pending sale of Worldline's physical payment terminals business to Apollo Funds, leaving behind a faster-growth, more predictable core business.

Our largest detractor during the quarter was **Grifols** (GRF SM), a Spain-based healthcare company that we've studied for roughly 15 years. Along with two other market leaders, Grifols is an oligopolist operating in the blood plasma (i.e., immunoglobulin, or "IG") market, which has historically grown at high-single-digit annual rates. Plasma companies pay donors for their blood ("source plasma"), collected up to twice per week in the US for an average price of \$35-\$45 per collection, which they then use as a key input in the manufacturing of various bioscience products. Superior access to source plasma at lower costs — only around 2% of the US population participates as donors — is an essential gating factor. After donor plasma has been obtained, it must be further processed at facilities that require extensive regulatory approval and typically take five to seven years to open, creating an additional barrier to entry. To scale its network of collection centers and decrease reliance on third-party collection services, Grifols has been an active acquirer of locations in the US and internationally, and the Company has grown organic sales in the high-single digits annually over the last five years with more than 20% operating margins. Not surprisingly, the pandemic posed a significant but temporary disruption to Grifols's collection volumes: As most would-be blood donors stayed home, the Company relied on its significant inventories while incurring additional costs to incentivize donors. We built our position on the resulting share-price weakness while anticipating a recovery in 2022.

During the quarter, Grifols reported sequentially strong results, with EBITDA up 48% vs. the H2 2021 trough, though investors were frustrated that management did not cut operating costs more aggressively as revenue and gross margins began to normalize. With plasma collections up 22% year to date and now above pre-COVID-19 levels, we expect a continued ramp in Grifols's profitability in H2 2022 with lower plasma costs benefiting margins on a nine- to 12-month lag. In the meantime, in a rising rate environment, investors remain concerned about Grifols's optically high debt levels (nearly 8x net debt/EBITDA on depressed earnings), despite management's reassurances that the Company has no need to issue equity to deleverage given the clear visibility on a post-pandemic profit recovery and relatively stable/recurring cash flow profile. While the vast majority of our holdings have debt-free balance sheets, we view Grifols as a temporary exception given the recurring, highly cash-generative nature of the business, which should enable rapid deleveraging in the years ahead.

Portfolio Developments

At the end of the third quarter, our portfolio's valuation represented approximately 55%-60% upside to our estimate of fair value, compared with approximately 45%-50% upside last quarter. We finished the quarter with roughly 4% of the portfolio in cash, while owning 48 companies, in line with last quarter. Our 15 largest positions at quarter end represented 53% of the Fund, while our 20 largest positions collectively represented 64% of the portfolio.

During the quarter, we added significantly to our position in **AIA Group** (1299 HK), which we last wrote about in the fourth quarter of 2021. Based in Hong Kong, AIA is Southeast Asia's oldest and largest life insurer, focused on protection policies (e.g., death and disability) and other annuity-like products, which it sells to Asia's rapidly growing middle class. Over the last 10 years, AIA has compounded revenue, earnings before interest, taxes and amortization (EBITA) and EPS at low-double-digit rates annually — a pace we believe the Company can sustain for the foreseeable future thanks to favorable demographic trends, the Company's unparalleled regional brand and the high upfront costs of starting a credible competitor (e.g., regulatory capital reserve requirements and upfront expensing of sales commissions). In our last profile of AIA, we described the short-term headwinds facing the business due to the reduction in visitors to Hong Kong from mainland China, which account for roughly half of the market's demand for life insurance products. Despite confirmatory research that significant pent-up demand exists, China's zero-COVID policy has persisted through the most recent quarter, weighing on AIA's results and on Chinese equities more broadly. In the meantime, AIA continues to grow outside of the Hong Kong region (i.e., in mainland China and across more than a dozen other Southeast Asian countries), thanks to its ongoing market leadership and the significant unmet need for financial savings and protection products in a region where most consumers lack a government-provided social safety net.

During one of our recent meetings with the Company, AIA's management team outlined its strategy to invest in its Hong Kong sales agency base, which should position the Company for significant share gains once the artificial handbrake on demand is inevitably lifted. Until then, we patiently await a more extensive reopening. Shares fell -23% (in USD) during the quarter, detracting roughly -120 bps from performance, and the Company ended the quarter trading at a 10-year low multiple of earnings, the equivalent of just over 1x the "embedded value" of the policies that AIA has already sold. In other words, the share price at quarter end ascribes little to no value for any future growth, which we regard as a valuation anomaly for a company with a more than 100-year pre-pandemic track record of strong and consistent double-digit growth addressing a market that remains deeply underpenetrated. We added significantly to our AIA position on that weakness, and it ended the quarter as one of our top five holdings.

The Investment Environment

The third quarter of 2022 was marked by a difficult market environment during which correlations across equities rose and relatively few financial assets held value except USD-denominated cash. First, protracted inflation in the US, UK and Europe forced central banks to accelerate the pace of interest rate increases. As of late October, futures markets were discounting peak policy rates in 2023 of 4.8% in the US, 5.1% in the UK and 2.9% in the eurozone — all substantially higher than June 30th policy rate levels. Second, geopolitics worsened, impacting growth outlooks and increasing tail risks. The Russia/Ukraine conflict continues to grind on with material Ukrainian advances raising the prospects of a protracted war with further escalation risks. In China, the 20th National Congress of the Chinese Communist Party in October consolidated Xi Jinping's political power and featured hawkish rhetoric on Taiwan reunification aims, while initially providing no relief to the struggling domestic economy. In the UK, with the collapse of Liz Truss's administration, Rishi Sunak's appointment as Prime Minister is good for political stability and economic prudence but likely ushers in a more austere economic reality. Finally, foreign exchange movements were a material headwind during the quarter, and capital continues to flow into and hide in the USD.

Taken together, these dynamics are causing financial market stress. The inexorable rise in the USD and central bank tightening, in general, are beginning to cause stress fractures throughout the financial landscape. Credit spreads rose across most fixed income instruments during the third quarter, and the UK sovereign debt market seized up and required the Bank of England's support due to asset-liability mismatches and collateral calls in the UK defined benefit pension market (a market that is larger than the country's GDP). The global economic outlook is worsening, and governments can't borrow and spend to support their economies. In many respects, the current investment landscape feels like investing in emerging markets during a crisis: Sovereign indebtedness has risen, and investors are worried about fiscal probity; inflation is too high; and central banks are acting aggressively.

The upshot is that international markets are cheap. The MSCI ACWI ex US Index (excluding companies with negative price-to-earnings multiples) has declined from 13.6x trailing 12-month consensus earnings at the start of the year to 9.7x by the end of September — near 25-year lows. The worsening economic environment we are seeing in coincident data is expected at this point. While we're conscious of the many tail risks that exist, we believe many of our Approved List businesses can thrive in a recession. With that in mind, our main focus from a macroeconomic perspective is on concentrating our portfolio in businesses that have historically proven to be relatively recession-proof, while monitoring interest rate cycles around the world. We would expect that any pause in the interest rate cycle would be viewed favorably, particularly benefiting asset prices of higher-quality growth companies.

As detailed earlier in this letter, our investment philosophy and process are devoted to identifying a relatively small number of businesses around the world capable of growing their earnings and cash flows at double-digit rates, even in the most difficult of macroeconomic environments. We seek to own those businesses at moments like this: when equity markets present an opportunity to own those companies at an attractive price relative to their current and projected future cash flows. At quarter end, our businesses traded at share prices representing a 4.5%-5.0% free-cash-flow yield on the companies' current cash flows, which we expect to grow in a highly predictable fashion for many years to come. That valuation should be absolutely attractive even in an environment in which the risk-free rate of interest on government debt has normalized to a fixed 3%-5% range. We have always looked for businesses that can command pricing power thanks to intellectual property-based business models, strong leverage over key input suppliers and strong customer entrenchment with high switching costs, a quality has rarely been as important as it is today as inflation approaches levels not seen for four decades. Three quarters into one of the most challenging macroeconomic years on record, we remain pleased with the fundamental performance of the vast majority of our portfolio companies and are excited about the valuations at which we own those businesses today. We thank you for entrusting us with the stewardship of your capital and will continue to work diligently on your behalf.

The Fund seeks to generate attractive returns over time but does not attempt to mirror a benchmark or index. The composition of the MSCI EAFE Index is materially different than the Fund's holdings.

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 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.

INDEX DEFINITIONS

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.

RISKS

Investors in the Fund should be able to withstand short-term fluctuations in the equity 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.

Foreign investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards. Prices of emerging markets securities can be significantly more volatile than the prices of securities in developed countries and currency risk and political risks are accentuated in emerging markets. 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. 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.

Asset allocation decisions, particularly large redemptions, made by BBH&Co., whose discretionary investment advisory clients make up a large percentage of the Fund's shareholders, may adversely impact remaining Fund shareholders.

For more complete information, visit www.bbhfunds.com for a prospectus. You should consider the fund's investment objectives, risks, charges and expenses carefully before you invest. Information about these and other important subjects is in the fund's prospectus, which you should read carefully before investing.

Shares of the Fund are distributed by ALPS Distributors, Inc. and is located at 1290 Broadway, Suite 1000, Denver, CO 80203.

Select Equity Group, L.P. acts as the sub-adviser to the Fund.

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