BBH Partner Fund – International Equity

Quarterly Fund Update / 1Q 2023

For the first quarter ended March 31, 2023, the BBH Partner Fund – International Equity (the "Fund") returned +9.44%. Over the same period, the MSCI EAFE Index[1] (the "Index") returned +8.47%.

Select Equity Group, L.P., the Fund's sub-adviser, assumed management of the Fund on February 24, 2017. Since that date through March 31, 2023, the Fund has generated a net annualized return of +5.87%, outperforming the Index's annualized return of +5.60% by +27 basis points[2] ("bps") per annum, and a net cumulative return of +41.58%, outperforming the Index's cumulative return of +39.41% by +217 bps. Since the Fund's inception on April 1, 1995 through March 31, 2023, the Fund has generated a net annualized return of +5.16%, outperforming the Index's annualized return of +4.78% by approximately +38 bps, and a net cumulative return of +309.34%, outperforming the Index's cumulative return of +269.79% by approximately +4,000 bps.

Performance
As of March 31, 2023

	Total Returns		Average Annual Total Returns			
	3 Mo.	**YTD**	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Class I	9.44%	9.44%	-5.46%	8.43%	4.30%	4.96%
MSCI EAFE Index	8.47%	8.47%	-1.38%	12.99%	3.52%	5.00%

Class I: Total Expense Ratio (%): 0.63

Returns of less than one year 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

International equities delivered positive returns in the first quarter of 2023, extending a recovery that began in the fourth quarter of 2022 following the sharp equity market sell-off in the first nine months of 2022. While the first three months of this year were characterized by continued volatility — as investors continued to confront top-down fears ranging from persistent inflation to the continued land war in Europe to the emergence of a US regional banking crisis — the Fund has now rebounded +26% net over the last six months versus the September 30, 2022 lows. The fundamental performance of our businesses remains very strong with our portfolio companies reporting average revenue growth and operating profit growth of more than 10% in their most recent fiscal quarter. We believe that in an increasingly choppy economic environment, our companies should be well-positioned to outperform the broader Index as they continue to deliver strong and resilient revenue and earnings growth. Interestingly, the past six months have also seen a modest outperformance of international equity markets (with the MSCI EAFE Index up +27% since September 30th) versus US equity markets (+16% over the same time frame). We continue to view international equities as increasingly attractive relative to US equities, driven by improving business and consumer confidence in Europe, a rebounding Chinese economy, foreign currencies that remain historically undervalued versus the US dollar, and mounting worries over the potential impact of a weakened domestic banking sector on the US economy.

Performance Review

In the first quarter of 2023, 18 positions contributed more than +0.20% each, 11 of which contributed more than +0.50% each. Conversely, we had five positions that detracted greater than -0.20% each, only one of which detracted more than -0.50%.

The top contributor in the first quarter was **CRH** (CRH ID), a business we last wrote about in the fourth quarter of 2021. As a brief refresher, CRH supplies aggregates — such as crushed stone, sand, and gravel — to construction-related customers. From a distance, this may sound like an undifferentiated commodity business. However, because aggregates are so heavy, they're expensive to transport, making it difficult for suppliers to survive unless they have a dense network of quarries located within 50 miles of their customers. As a result, the industry has steadily consolidated around a handful of scaled players such as CRH, allowing for healthy profit margins and strong pricing power even in weak market environments. In addition to routine price increases, aggregates volumes have grown 4% annually over the long term, including pockets of higher growth in regions such as the US Southwest. Over the last decade, CRH has compounded its revenue, operating profit and earnings per share (EPS) by 6%, 17%, and 21%, respectively.

[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.

This impressive growth includes the impact of astute capital allocation; over the years, the Company has further densified its network via tuck-in acquisitions of high-quality assets — while divesting some slower-growth and/or lower-margin units — at valuations we regard to be attractive.

When we last wrote about CRH, we highlighted two potential near-term opportunities for the business and the stock. First, US aggregates demand had yet to fully recover from a modest decline during the 2020 pandemic. As this catch-up progressed and was helped by newly passed infrastructure legislation, we also expected CRH to utilize its pricing power in the midst of accelerating inflation, together resulting in stronger-than-usual top-line growth. Second, we noted that CRH was trading at a material discount to its US-domiciled peers, despite being the largest building materials supplier in the US and twice the size of its nearest competitor. This divergence seemed to be explainable only by non-fundamental factors, such as CRH's international listing, which could be remedied by management. During the latest quarter, we saw progress on both fronts. CRH concluded its highest organic sales growth year (11%) in two decades while growing cash EPS in the high teens. Additionally, management announced its intention to move CRH's primary listing to the US. As a result, shares appreciated +28% (in USD) during the quarter, contributing approximately +110 bps. We took the opportunity to modestly trim our position on valuation strength, but CRH still ended the quarter as a top five position.

Top 10 Companies As of March 31, 2023	
Safran SA	5.4%
AIA Group Ltd	4.5%
SAP SE	4.2%
PerkinElmer Inc	4.1%
CRH PLC	3.9%
JD.com Inc	3.5%
Schneider Electric SE	3.5%
Alcon Inc	3.5%
Taiwan Semiconductor Manufacturing Co Ltd	3.3%
Keyence Corp	3.2%
Total	**39.2%**

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

The largest detractor in the first quarter was **JD.com** (9618 HK), one of the leading online retailers in China. Our Research Team has been studying JD.com and its competitors in the Chinese e-commerce industry since 2014. We first invested in JD.com in 2021 after the Chinese government's regulatory crackdown on anti-competitive practices in the technology industry weighed on investor sentiment and share prices. We believed then (and continue to observe today) that JD.com would benefit significantly from China's regulators leveling the playing field. JD.com has long been the second-largest online platform in China for a wide variety of high-quality branded merchandise; however, until 2021 Alibaba Group was able to impose merchant exclusivity provisions on its platform sellers that effectively prevented JD.com from opening a competing online shop on its own platform. Meanwhile, much like Amazon in the US, JD.com spent the last two decades investing in its nationwide owned and operated warehousing, logistics, and delivery network, around which it has built China's largest first-party retail operation. JD.com sells a wide assortment of authentic, high-quality branded consumer products that are stored in its warehouses, enabling the Company to leverage its platform to provide same-day or next-day delivery to consumers, whereas its e-commerce competitors rely on the two- to three-day delivery provided by third-party logistics partners. This in-house logistics capability was time-consuming, expensive, and capital intensive to build, but now the Company benefits from extremely high barriers to entry, as well as an outstanding reputation for both quality product selection and fast, reliable delivery. JD.com's nearly 600 million Chinese customers — 90 million of whom shop on the site on a daily basis — use its platform to buy everything from household and office staples to big-ticket electronics and appliances. Over time, more merchants and business customers have joined JD.com's platform, driving a network effect that has enabled the Company to deliver compound annualized revenue growth of 24% over the last five years. After years of incurring start-up operating losses while building out its logistics network, JD.com achieved breakeven operating profitability in 2017-2018. Since that time, the Company has steadily and significantly improved its Retail segment profit margin, while consistently generating very strong free cash flow (FCF).[3]

In the first quarter, despite reporting strong financial results, JD.com saw various factors weigh on investor sentiment and, consequently, its share price (unfairly, in our view). First, shares sold off in early February after a Chinese surveillance balloon wandered off course over the Pacific Ocean and into US airspace, leading to "risk-off" selling of Chinese equities by US investors wary of geopolitical tensions. By all accounts, this incident was overblown in importance — the US, China, and other nations conduct surveillance primarily via satellites, which are far more powerful and effective than balloons — and, as of this writing, both the US and China are signaling in diplomatic discussions an earnest desire to move on from an event that took on a life of its own for a time in the media. Second, in late February the *South China Morning Post* reported that JD.com was preparing to roll out a new everyday-low-price subsidy program that mirrors a similar promotion offered by e-commerce rival Pinduoduo. While analysts initially worried this initiative might dent JD.com's profit margins, the Company has subsequently reassured investors the program would have little to no impact on its overall marketing budget, as its merchant partners would fund 80% of the discounts in the program. Despite investor nervousness, the Company continues to deliver excellent operating and financial performance. The Company's Q4 2022 results (reported in March) saw gross profit expand by 12% against a tough prior-year comparison, while outstanding cost controls led to 51% growth in full-year FCF, as well as the second-largest quarterly operating profit in Company

[3] FCF is calculated by taking the cash flow from operations minus capital expenditures.

history — in both cases, significantly above expectations. JD.com shares nevertheless fell by -22% (in USD) in the first quarter, detracting roughly -110 bps. The stock price ended the quarter trading at a valuation of just 13x-14x trailing cash earnings with FCF expected to grow significantly in 2023 and the years ahead. We added to our JD.com position on share-price weakness in March, and the Company remains a top 10 position. We also initiated a new round of qualitative field research to update our views on JD.com's competitive advantages versus e-commerce rivals in China, a dynamic market that continues to evolve.

Portfolio Developments

At the end of the first quarter, our portfolio's valuation represented approximately 30%-35% upside to our estimate of fair value, compared with approximately 40%-45% last quarter. We finished the quarter with roughly 4% of the portfolio in cash, up from 0% last quarter, while owning positions in 51 companies, up from 50 last quarter. Our 15 largest positions at quarter end represented 54% of the portfolio, while our 20 largest positions collectively represented 64%.

During the quarter, we took advantage of valuation strength to reduce our sizable position in **Constellation Software** (CSU CN), a business our Research Team has studied for nearly eight years. Founded in 1995 by current CEO Mark Leonard, Constellation Software is a niche Canadian enterprise resource planning (ERP) software conglomerate. Its management team, which owns 15% of the Company, has demonstrated an outstanding track record for capital allocation and shareholder value creation over time, building the business via a series of roll-up acquisitions. Today, Constellation Software is composed of over 1,000 individual business-to-business software companies with highly industry-specific (or vertical) use cases — for example, an ERP system for wineries or a document management system for oil rigs. Constellation Software's operating companies tend to be capital-light, highly sticky, recurring-revenue businesses with embedded pricing power that allows for resilient mid-single-digit sales growth even for the more mature businesses in the portfolio that have largely penetrated their addressable markets. The Company is run on a decentralized basis with only a handful of corporate employees, allowing Constellation Software's six operating groups to make additional value-accretive acquisitions, while managing their day-to-day operations independently. Unusually, the Company's capital allocation team is required to reinvest 75% of their after-tax bonus earnings into locked-up shares, resulting in sustained high employee ownership and an attractive degree of alignment with third-party shareholders like us. The Company's track record, as evidenced by its multi-year financial performance, has been formidable with a decade-long history of compounding revenue, earnings before interest, taxes, and amortization (EBITA) and EPS by more than 20% annually, while earning pre-tax returns on invested capital of more than 50%.

Due to this high-quality track record, we are rarely afforded the opportunity to buy shares of Constellation Software on sale. In early 2020, indiscriminate selling during the initial outbreak of the COVID-19 pandemic allowed us to build a sizable position in the Company. Since then, despite a generally abysmal year for most growth stocks in 2022, Constellation Software's shares have appreciated more than +70% (in USD) versus pre-COVID-19 highs. During this stretch, Constellation Software has shown an ability to further scale its capital deployment, creating additional shareholder value through spin-offs while continuing to deploy cash flow on bolt-on acquisitions at a very meaningful rate. During the most recent quarter, the stock reached new record highs — something few other technology companies can claim at the moment. We took the opportunity to reduce our position by roughly one-third with the share price having appreciated to a level closer to our estimate of its fair value. While Constellation Software remains a mid-sized position and we expect further compounding in the years ahead, we were happy to rotate capital in an environment when most other businesses in our portfolio and broader universe were trading at much larger discounts to our intrinsic value[4] estimates.

The Investment Environment

After more than a decade of ultra-easy, unorthodox monetary policies, the process of normalization was never going to be smooth. The sudden collapse of Silicon Valley Bank and the subsequent US regional banking crisis provided an important reminder of the risks of investing in structurally fragile business models. Systemic risk appears contained for now with the overall banking system remaining relatively healthy, though certain sectors (notably commercial real estate) will continue to exhibit stress in the years ahead. More broadly, the overall supply of credit will likely contract further, increasing the likelihood of a cyclical slowdown in the US economy. Outside the US, thus far, we've seen few signs of contagion risk in Europe (where stress tests are mandatory for all banks, regardless of size) or the rest of the world. The collapse of Credit Suisse — whose share price ended 2022 already more than -84% (in USD) below its 2018 peak — may have been hastened by events in the US, but it was ultimately the result of years of mismanagement under five separate CEOs.

Meanwhile, inflationary pressure is easing, while growth expectations are rising outside of the US. As of this writing, the Consumer Price Index has been falling on a year-over-year basis in the eurozone and UK since October and in Japan since January. Monetary conditions are also improving

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

with long-term sovereign bond yields declining significantly as markets begin to discount rates peaking sooner. Two-year bond yields in most developed markets posted quarterly declines in the first quarter, ending well below their 2022 and 2023 peaks. Unsurprisingly, USD weakness has continued, albeit with plenty of room to run: The EUR, JPY and GBP remained 51%, 40%, and 22% undervalued, respectively, on a purchasing power parity basis as of March 31st.

During the past two years, global equities have been overwhelmingly driven by a succession of top-down factors. The first quarter of 2023 exhibited some encouraging signs that, in an era of more normalized interest rates, markets are beginning to refocus on structural earnings growth. We believe the potential to sustain double-digit earnings growth significantly distinguishes our portfolio from the vast majority of companies in the Index, which has delivered just low- to mid-single-digit earnings growth over the past 10-15 years. While macroeconomic and geopolitical headwinds remain at the forefront of many market participants' concerns, we would certainly welcome an environment in which company fundamentals once again become the primary driver of long-term investment success.

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.