BBH Partner Fund – International Equity

Quarterly Fund Update / 2Q 2023

For the second quarter ended June 30, 2023, the BBH Partner Fund – International Equity (the "Fund") returned +2.01%. Over the same period, the MSCI EAFE Index[1] (the "Index") returned +2.95%.

Select Equity Group, L.P., the Fund's sub-adviser, assumed management of the Fund on February 24, 2017. Since that date through June 30, 2023, the Fund has generated a net annualized return of +5.96%, outperforming the Index's annualized return of +5.86% by +10 basis points[2] ("bps") per annum, and a net cumulative return of +44.42%, outperforming the Index's cumulative return of +43.53% by +90 bps. Since the Fund's inception on April 1, 1995 through June 30, 2023, the Fund has generated a net annualized return of +5.19, outperforming the Index's annualized return of +4.85% by approximately +34 bps, and a net cumulative return of +317.55%, outperforming the Index's cumulative return of +280.71% by approximately +3,685 bps.

Performance
As of June 30, 2023

	Total Returns		Average Annual Total Returns			
	3 Mo.	**YTD**	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Class I	2.01%	11.64%	11.85%	2.13%	4.30%	5.35%
MSCI EAFE Index	2.95%	11.67%	18.77%	8.93%	4.39%	5.41%

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

The MSCI EAFE Index returned +2.95% in the second quarter, bringing its year-to-date gain to +11.67%. The MSCI ACWI ex US Index[3] – a broader benchmark that includes Greater China and other emerging markets – returned +2.44% in the second quarter, bringing its year-to-date gain to +9.47%. This reflects a significant shift in consensus views. Six months ago, it was assumed that a return to 2% inflation in the US and Europe would require central banks to raise interest rates so aggressively as to trigger a steep recession. Today, equity markets are discounting a much more benign outlook – led by the US – with policy rates peaking sooner and at lower levels. Year-over-year (YoY) headline Consumer Price Index inflation trended down in all major developed markets, culminating in June readings of 3.0% in the US, 5.5% in the eurozone, 7.9% in the UK (stubbornly high but still falling) and 3.3% in Japan. Markets were further heartened by the fact that the monetary tightening required to bring about this disinflation has not (so far, at least) materially dented economic momentum. Since the start of the year, the consensus estimate for 2023 world gross domestic product growth has increased from 2.1% to 2.6% with upward revisions in the US, eurozone and UK. In addition, unemployment has remained remarkably low everywhere. Finally, notwithstanding the brief "coup" threat in Russia, it was a relatively calm quarter on the geopolitical front. The war in Ukraine has evolved into a hard-fought battle over inches, tragic for human life but stable in terms of wider economic impact. Meanwhile, US/China relations remain frayed, but the recent pace of ministerial and bureaucratic contact suggests that guardrails to this vital relationship are at least being maintained.

Two countries disproportionately impacted international equity returns in the second quarter. China struggled as the Shanghai Composite Index and the Hang Seng Index posted total returns of -6.3% and -5.9% (in USD), respectively. After the end of pandemic lockdowns in November 2022, economic growth rebounded strongly in the first quarter but lost momentum in the second, though the full-year target of 5% should be achievable with additional stimulus. The world's second-largest economy continues to trade at a low-teens price-to-earnings (P/E) multiple with several Approved List businesses offering what we believe are compelling valuations. In contrast, Japan had a strong quarter with the Nikkei 225 Index rising +9.0% in USD and +18.5% in local currency. Japan is expected to grow modestly in 2023, while the Bank of Japan continues to pursue ultra-loose monetary policy. The market looks reasonably attractively valued at a 1.3x price-to-book ratio and a 14x-15x P/E ratio. The challenge, as always, is that Japan continues to exhibit one of the worst returns on equity outside of the US in the high-single digits. Hope springs eternal that various governance initiatives will help drive collective

[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.

returns higher, and there is evidence of a gradual improvement. However, in very few instances does this progress reach the levels of returns that our strategy and process demand. We continue to hunt extensively in this market. There are a relatively small number of Japanese businesses one could call a globally competitive compounder; when those companies trade at a significant discount to our estimate of intrinsic value,[4] we are happy to seize the opportunity to buy them (and have two such positions in the Fund as of this writing).

Top 10 Companies As of June 30, 2023	
Safran SA	5.5%
CRH PLC	4.5%
AIA Group Ltd	4.4%
SAP SE	4.3%
Alcon Inc	4.1%
Revvity Inc	3.7%
Taiwan Semiconductor Manufacturing Co Ltd	3.6%
Schneider Electric SE	3.4%
London Stock Exchange Group PLC	3.1%
JD.com Inc	3.0%
Total	**39.6%**

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

After a strong start to the year, China's economic recovery faded significantly beginning in April due to softness in two parts of the economy. The first of these is the property sector, for which a 30-year boom ending in 2020 (during which prices rose elevenfold) resulted in an oversupplied and unaffordable market. The subsequent collapse in demand amidst the pandemic left property developers with dangerously high levels of debt, which the Chinese government is currently working to recapitalize in conjunction with the country's financial sector. The second growth detractor was trade: Exports surged in March (as pent-up demand was unwound) but then declined from May onwards, in line with other major Asian exporters such as South Korea and Taiwan. By contrast, the recovery in consumer spending – which represents the overwhelming majority of the Fund's equity exposure in Greater China – has been stronger and more resilient. Retail sales value soared to 19% above the 2019 pre-pandemic level in March and remained 18% stronger in June despite the twin macro headwinds described above. Domestic airline passenger volumes rose back above 2019 levels in April and were 7% higher in June. While Chinese consumers did not benefit from US-style fiscal handouts during the pandemic, they did significantly increase their household savings, creating a very significant surplus that is now gradually beginning to be reinvested into the consumption economy. We believe the China holdings in our portfolio are positioned to benefit from structural consumer growth tailwinds with solid competitive moats that should allow them to sustain revenue growth and margin expansion for many years. Overall, the Chinese economy grew 5.5% in the first half of 2023 with most economists expecting full-year growth closer to the government's stated target of 5% for 2023.

As a whole, our portfolio remains largely unchanged from last quarter: attractively valued and relatively fully invested. Having actively rotated the portfolio in the 2022 equity market sell-off – buying or adding to many of our favorite businesses at a rare moment of broad-based market weakness – we have seen the vast majority of our companies deliver strong double-digit growth this year. In the most recent quarter, our companies on average grew their revenues by 10%-11% while delivering earnings-per-share growth of 12%. This fundamental performance continues to far outpace the broad-based results of companies in the MSCI EAFE Index, for which revenues grew by 4% in the quarter and average profits declined vs. the prior year (with most Index constituents lacking the pricing power to offset persistent cost inflation and rising financing costs). Not surprisingly, the Fund's turnover has been relatively low thus far this year, with a recovery in many of our holdings' share prices accompanied by continued compounding in their earnings growth and our fair value estimates.

Performance Review

In the second quarter of 2023, 13 positions contributed more than +0.20% each, two of which contributed more than +0.50% each. Conversely, we had seven positions that detracted greater than -0.20% each, one of which detracted more than -0.50%.

Our largest contributor to performance during the quarter was **Melrose Industries** (MRO LN), a company we last profiled in the fourth quarter of 2020 when the business was recovering from a meaningful pandemic-driven impairment to both its cash flow and stock price. Melrose has historically operated like a nontraditional private equity firm: Its leadership team acquired undermanaged industrial businesses based in the UK (typically with minimal leverage), improved their operations and then continued to own and operate them unless an attractive exit opportunity arose. Until recently, the Company's three most important divisions were automotive; commercial heating, ventilation and air conditioning (HVAC); and commercial aerospace, which was the most negatively impacted by the COVID-19 lockdowns and subsequent lack of air travel. As travel has begun to recover, management has doubled down on the Company's aerospace business, selling its HVAC segment in 2021 for approximately $3.6 billion, followed by a spin-off of the automotive and remaining non-aerospace operations during the second quarter. This playbook has left Melrose as a pure-play, easier-to-understand aerospace business with a rapidly recovering end market, and management has committed to making no further acquisitions for the time being. Following the spin-off,

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

Melrose reported a strong mid-year trading update in May with revenue growing 19% and new multiyear margin targets in the high teens – both ahead of expectations. As a result, the stock appreciated +47% (in USD) during the quarter, including the impact of the spin-off.

One of the more sizable detractors from performance during the second quarter was **Sartorius Stedim Biotech** (DIM FP), a business we have studied and admired for more than a decade. Sartorius Stedim was formed in 2007 after German pharmaceutical and lab equipment supplier Sartorius AG merged its biotechnology business with Stedim Biosystems SA, a French competitor. The resulting company, which has been further augmented by over 15 tuck-in acquisitions since 2007, is a top pure-play supplier to the biopharmaceutical industry, serving customers who develop drugs from living organisms (one of the oldest and most well-known examples is penicillin, which was created from mold cells) as opposed to conventional chemicals. In recent years, biopharma drugs in clinical development have grown at a low-double-digit compound annual growth rate, rising from 27% share of the total drug development pipeline in 2012 to 45% in 2022 thanks to the proliferation of biosimilars (generic biotech drugs), new applications in cell and gene therapy and growth in mRNA-based vaccines. Sartorius Stedim supplies a variety of products used in the research and development of these products (otherwise known as "bioprocess"), including bioreactors (specialized steel vats in which cells and tissues are grown), single-use bags (disposable, non-rigid alternatives to bioreactors), filtration systems, chromatography tools (used to separate the components in a given solution) and cell culture media (nutrients used in the bioreactor fermentation process to enable cell growth). Compellingly, most of these products are consumables – the razor in Sartorius Stedim's razor/razorblade business model, accounting for over 80% of total sales and dampening earnings cyclicality. The combination of the Company's leading competitive position, fast-growing market and largely recurring-revenue base has resulted in an excellent financial profile. Over the last 10 years, the business has compounded revenue and earnings by 20% and 27%, respectively, with more than 50% gross margins and over 25% operating profit margins. In the last five years, bolstered by robust spending during the pandemic, growth has been even stronger.

Not surprisingly, Sartorius Stedim rarely trades at a discount to our estimate of its intrinsic value; prior to 2023, the business had grown revenue and earnings every year since its creation in 2007. This year, however, that streak will be broken due to a combination of headwinds. First, COVID-19 vaccine-related revenue is declining, as expected. Second, customers across the life sciences value chain are drawing down inventories as post-pandemic demand continues to normalize. Lastly, and most acutely for Sartorius Stedim, the recent venture capital credit crunch has squeezed the research and development budgets of loss-making, pre-commercial biotech customers, which account for around 20% of industry spend. As a result, we expect total sales for the Company to decline in the mid-teens this year before recovering to their normal cadence in 2024. This near-term revenue adjustment has given us a rare opportunity to invest in this outstanding business at a moment of weakness with the shares having fallen more than -60% (in USD) on a cumulative basis from the September 2021 highs to the end of the second quarter of 2023. This peak-to-trough drawdown included a -19% decline (in USD) in the most recent quarter, and we added to what had been a smaller position at the end of the period.

Portfolio Developments

At the end of the second quarter, our portfolio's valuation represented approximately 30%-35% upside to our estimate of fair value, unchanged from last quarter. We finished the quarter with roughly 5% of the portfolio in cash, up modestly from 4% in the previous quarter, while owning positions in 51 companies, in line with last quarter. Our 15 largest positions at quarter end represented 54% of the portfolio, while our 20 largest positions collectively represented 65%.

During the quarter, we added to our position in **OBIC** (4684 JP), a leading vendor of enterprise resource planning software in Japan. We generally find business-to-business software to be an attractive category due to the inherently scalable business model (once built, a software application can be sold many times with limited marginal cost), predictable subscription-based revenue and high switching costs (and, therefore, pricing power) among leading vendors. Compared to Western markets, however, Japan has been slower to adopt consumer-grade cloud software, thanks to a legacy of inflexible mainframe-centric technology and a lack of internal enterprise information technology (IT) teams: Only 25% of Japan's IT employees work in-house, and over 50% of Japanese companies lack a full-time CIO. The unique history and structure of the Japanese market has not prevented Western vendors from making inroads – for example, **SAP** is the leader among large enterprise customers – but it still favors local incumbents. OBIC dominates the mid-market ($100-$500 million in sales), for which its share is three times that of its nearest competitor. Unlike many peers, OBIC eschews third-party integrators, directly selling and implementing its own software, enabling a lower total cost of ownership. Furthermore, as Japan shifts towards a more cloud-friendly IT ecosystem, OBIC has been relatively innovative, providing both platform/infrastructure-as-a-service and software-as-a-service offerings, which collectively comprise over 30% of newly sold subscriptions today.

The Company has historically compounded revenue and earnings at high-single-digit and low-teens rates, respectively, with operating margins above 60% – among the best in our investment universe – following two decades of consistent annual expansion. More recently, OBIC has begun to demonstrate success in penetrating larger-sized enterprise accounts, successfully moving upmarket from its historical beachhead among small- to medium-sized business customers. This strengthening business momentum and the resulting larger addressable market opportunity have yet to be fully reflected (in our view) in the Company's share price, which, for most of the quarter, remained at similar levels to the past two to three years, despite the strong and continued compounding of revenue, cash flows and earnings power over that time.

We raised our weighting during the period such that OBIC ended the quarter as one of the 20 largest holdings in the Fund with its shares trading approximately 30% below our estimate of fair value. Additionally, and notably, the Japanese yen (JPY) remains more than 50% undervalued as of quarter end, and OBIC is among the few high-quality Japanese businesses on our Approved List that sells predominantly into the domestic Japanese market. We do not include any assumption of future foreign exchange fluctuations in our valuation for the Company; however, our true share-price upside as US dollar-based investors would prove significantly greater if the JPY were to mean-revert closer to purchasing power parity with the USD (as history suggests is more likely than not with a multiyear investment horizon).

The Investment Environment

After a decade of extraordinary volatility in economic fundamentals, policymaking and geopolitics – compounded by a global pandemic – we are reminded of a quote from former US President Warren G. Harding (applicable today not just in the US but around the world) regarding how the "present need is not heroics but healing; not nostrums but normalcy; not revolution but restoration." Although there remains no shortage of reasons to be cautious (not least of which include deglobalization, climate change, high public sector debt levels and political dysfunction), these are now at least generally recognized. Meanwhile, the global economy is moving towards post-pandemic normalcy.

Inflation is a notoriously difficult genie to put back in the bottle, even though policymakers have made recent progress controlling the spiraling cost pressures that plagued consumers and businesses in 2022. Importantly, labor cost growth remains high, currently running around a 5% rate in the US and Europe. History teaches that taming inflation without crashing the economy becomes far more challenging when wages are growing in real terms. In Europe's case, slowing economic momentum should relieve some of this pressure. Equally, there are clear disinflationary impulses around rents, easing labor shortages and input costs. While a return to inflation consistent with central bank policy may not be a straight line, a more benign inflation outlook would bode well for our Approved List investible universe.

The International Monetary Fund foresees annual global economic growth at around 3% for both 2023 and the next few years. Against that backdrop, real interest rates and bond yields (using the US as an example) are back to similar levels as the early 2000s. We are increasingly hopeful that equity multiples – having been ratcheted higher by quantitative easing from 2019 to 2021 and then lower by quantitative tightening in 2022 – might, once again, be driven more by company-level operating and earnings results in the years ahead.

Our Research Team is also studying several high-level macroeconomic and geopolitical trends coming into focus (some of them overlapping) that will differentiate the decade that follows the pandemic from the one that preceded it. One of these is deglobalization, as national security concerns drive a rise in nationalism and protectionist industrial policy. Developed market governments are committing public sector capital on a previously unimaginable scale to build comparative advantages (or at least self-sufficiency) in strategically important industries after learning just how fragile "just-in-time" global supply chains can be in recent years. Our portfolio includes a number of winners from tailwinds to infrastructure, semiconductor capital expenditures and nearshoring/onshoring. Second, a resurgence in technology-enabled productivity (including, but not limited to, generative artificial intelligence and automation) will benefit semiconductor suppliers, automation hardware suppliers, proprietary data owners and IT software providers (a number of which we own today). Third, we are approaching a new age of innovation in healthcare. The COVID-19 pandemic turbocharged life sciences research and investment into emerging areas like mRNA therapeutics and cell and gene therapies. This new frontier shows great promise in combating the whole spectrum of cancers and infectious diseases, even as meaningful developments have recently emerged in previously unaddressed blockbuster therapeutic categories, such as Alzheimer's and obesity. We have three investments in providers of life sciences consumables and equipment whose products are essential to these pursuits.

Over the last two years, we have observed high-quality growth companies substantially underperform the broader international equity markets, despite sustained superior revenue and earnings growth in an increasingly volatile economy. We believe our portfolio remains "on sale" today. Our holdings have generally compounded their revenues and cash flows at double-digit rates over the last decade, during which the earnings-per-share growth of the MSCI ACWI ex US Index has been in the low-single digits. With normalized interest rates likely foreshadowing a decade ahead in which broader market valuation multiple expansion is arguably far less likely than the last decade (with its zero risk-free rates sparking a reach for yield), we believe that traditional valuation metrics and relative earnings growth should, once again, come to drive share-price performance in the years ahead. In addition, a majority of our portfolio is denominated in currencies that are themselves significantly undervalued based on purchasing power parity (most notably, the EUR, JPY and GBP). The recent US sovereign credit rating downgrade, combined with political turmoil ahead of the 2024 presidential election, may prove to be catalysts for the USD to finally mean-revert towards purchasing power parity. We thank you for your patience following a volatile and difficult last few years of relative performance for the Fund, and we 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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