# BBH Income Fund

*Quarterly Fund Update / 4Q 2023*

### 4Q Highlights

- The Fund's sector and rating emphases contributed to relative results during the quarter. Security selection detracted from relative performance, although results were mixed across sectors.
- Narrowing risk spreads caused valuations of Index credits to weaken during the quarter, yet there remains an abundance of opportunities in select subsectors of the market.
- Despite waning opportunities in the credit markets, we identified numerous new opportunities across a variety of sectors and industries for the Fund during the quarter.

**Performance as of December 31, 2023**

| | Total Returns | | Average Annual Total Returns | | | | |
|---|---|---|---|---|---|---|---|
| Fund/Benchmark | 3 Mo | YTD | 1 Yr. | 3 Yr. | 5 Yr. | 10 Yr. | Since Inception |
| BBH Income Fund Class I | 7.29% | 9.08% | 9.08% | -1.47% | 3.11% | N/A | 3.07% |
| Bloomberg US Aggregate Index | 6.82% | 5.53% | 5.53% | -3.31% | 1.10% | N/A | 1.29% |

Class I Inception: 6/27/2018
Class I: Net/Gross Expense Ratio (%) 0.47 / 0.47
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 redeemed, may be worth more or less than the original cost. For performance current to the most recent month-end please call 1-800-625-5759.**

The investment adviser has contractually agreed to limit the Total Annual Fund Operating Expenses for Class I Shares to 0.50% through March 1, 2024. The Expense Limitation Agreement may only be terminated during its term with approval of the Fund's Board of Trustees (the "Board").
Sources: Bloomberg and BBH & Co.

### Market Environment

Interest rates fell and credit spreads narrowed across the fixed income markets during the fourth quarter. Just three months ago, the Bloomberg Aggregate Index (the "Index") had a negative year-to-date total return after interest rates rose and market conditions suggested a "higher-for-longer" interest rate environment. Those conditions changed rapidly, as investor expectations now reveal quicker and larger Federal Reserve (Fed) rate cuts in 2024. The prospect of near-term Fed easing may also alleviate investor concerns about near-term economic risks.

Fixed income indexes experienced positive returns amid the decline in interest rates (see Exhibit I). Risk spreads narrowed significantly throughout the credit markets and provided an additional boost to the performance of credit indexes. Indexes of investment-grade (IG) corporate bonds, asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), high yield (HY) corporate bonds, senior bank loans, and collateralized loan obligation (CLO) debt all outperformed Treasury alternatives during the quarter. The Agency MBS Index also posted notably strong performance after exhibiting volatility throughout the year as the Fed executes its quantitative tightening campaign.

Year-to-date, all credit indexes had positive excess returns. Non-agency CMBS outperformed comparable duration Treasuries slightly despite negative headlines regarding commercial real estate. Indexes of IG corporate bonds, senior bank loans, HY corporate bonds, nontraditional ABS, and CLO debt posted strong excess returns.

**Exhibit I: Fixed Income Indexes Returns**

| | Duration | Total Return (%) | | Excess Return (%) | |
|---|---|---|---|---|---|
| Index | (Years) | QTD | YTD | QTD | YTD |
| Morningstar LSTA Leveraged Loan Index[1] | 0.3 | 2.87 | 13.35 | 1.48 | 8.19 |
| Palmer Square CLO Debt Index[1] | 0.3 | 4.07 | 17.42 | 2.68 | 12.26 |
| Bloomberg 2 Year U.S. Treasury Bellwether Index | 1.8 | 2.49 | 3.65 | – | – |
| Bloomberg ABS ex Stranded Cost Utilities Index | 1.9 | 2.89 | 5.31 | 0.30 | 0.92 |
| Bloomberg U.S. Corporate High Yield Index | 3.2 | 7.16 | 13.45 | 3.31 | 8.86 |
| Bloomberg Non-Agency CMBS Index | 3.8 | 4.91 | 5.15 | 0.74 | 0.81 |
| ICE BofA AA-BBB US Misc. ABS Index[2] | 3.9 | 4.29 | 9.30 | 0.19 | 5.10 |
| Bloomberg Intermediate Corporate Index | 4.0 | 5.86 | 7.29 | 1.59 | 3.03 |
| Bloomberg MBS Index | 5.9 | 7.48 | 5.05 | 1.33 | 0.68 |
| Bloomberg U.S. TIPS Index | 5.9 | 4.71 | 3.90 | – | – |
| Bloomberg EM USD Aggregate Index | 6.1 | 8.10 | 9.09 | 2.56 | 5.32 |
| Bloomberg U.S. Treasury Index | 6.2 | 5.66 | 4.05 | – | – |
| **Bloomberg Aggregate Index** | 6.2 | 6.82 | **5.53** | **0.88** | **1.40** |
| Bloomberg U.S. Corporate Index | 7.1 | 8.50 | 8.52 | 2.03 | 4.55 |
| Bloomberg 10 Year U.S. Treasury Bellwether Index | 7.9 | 6.87 | 3.21 | – | – |
| Bloomberg Taxable Municipal Index | 9.6 | 8.98 | 8.85 | 0.57 | 5.20 |
| Bloomberg Long Corporate Index | 13.1 | 14.01 | 10.93 | 3.03 | 7.63 |

**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 December 31, 2023
Sources: Morningstar, JPM, Bloomberg, and BBH Analysis

**This material is not authorized for distribution unless accompanied or preceded by a current Fund prospectus.**
**BBH Fund Information Service: (800) 625-5759**

## Valuations

Narrowing risk spreads caused valuations to weaken during the quarter. According to our valuation framework,[1] the percentage of IG corporate bonds that screened as a "buy" decreased to 23% versus 32% at the start of the quarter, while the percentage for HY corporate bonds was 24% versus 33% at the start of the quarter. Senior bank loans continue to screen attractively, with over 90% of the universe screening as a "buy" candidate.

There remains an abundance of opportunities in select subsectors of the market (see Exhibit II). We continue to find opportunities in intermediate maturity bonds and IG bonds issued by companies operating in interest rate sensitive sectors, like banks, life insurance, and real estate investment trusts (REITs). Several double-B and single-B rated bonds issued by companies in the wireline, wireless, transportation services, and media-entertainment sectors screen attractively. In the structured credit markets, we observe a continuing disconnect between wider credit spread levels and solid credit performance. We are finding an abundance of attractively valued opportunities in non-traditional ABS issuances and CLO debt. We believe opportunities in the CMBS market will arise as stronger properties come to market with Single Asset, Single Borrower (SASB) securitizations that facilitate strong transparency.

**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 | Small opportunities dissipated as spreads rallied; only 0.4% screens as "buy" candidates | No positions in portfolios |
| RMBS | Continued credit and valuation concerns | No positions in portfolios |
| CMBS | Generalized fears do not account for bond level dynamics and durability | Hold positions in fixed- and floating-rate SASB CMBS deals; waiting for opportunities to emerge |
| 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 | Opportunities remain in some interest rate sensitive sectors despite tighter Index valuations | Holdings include intermediate maturity credits issued by banks, P&C insurers, business development companies, electric utilities, and life insurers |
| Senior Bank Loans | Attractively valued opportunities while default rates remain subdued | Holdings are diversified and include credits issued by healthcare, airlines, and pharmaceutical companies |
| HY Corporate Bonds | Valuations tightening, Index spreads narrowing as conditions for leveraged borrowers improved | Holdings are diversified and include credits issued by midstream energy companies and electric utilities |
| **Other Credit** | | |
| Emerging Markets | Concerns remain about creditor rights in most emerging market countries | No positions in portfolios |

As of December 31, 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; IG = Investment Grade; HY = High Yield; SASB = Sing Asset, Single Borrower; REIT = Real Estate Investment Trust

Source: BBH Analysis

There are several sectors where valuation and durability concerns lead us to avoid positions in client portfolios. Valuations of agency MBS weakened amid strong spread compression during the fourth quarter, and only small segments of the market screen as a "buy" candidate to us. We

[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.

continue to avoid non-agency residential mortgage-backed securities (RMBS) due to poor technical factors and weak fundamentals underpinned by weak housing affordability, low inventory of homes for sale, and stable-to-declining home prices. We continue to avoid emerging markets credits due to concerns regarding creditor rights in most countries.

## Performance

Sector and rating emphases contributed to relative results during the quarter. The Fund was overweight to several strong-performing segments of the credit markets, including senior bank loans, IG corporate bonds, HY corporate bonds, and ABS (see Exhibit III). The avoidance of agency MBS hindered relative results during the quarter.

**Exhibit III: Fund Attribution**

| | Average Weight (%) | | | Contribution (Basis Points - Gross) | | |
|---|---|---|---|---|---|---|
| | Portfolio | Benchmark | Active | Rates | Sector | Selection |
| **Total Portfolio** | **100.0** | **100.0** | **0.0** | **33** | **35** | **-7** |
| US Treasury | 9.1 | 41.8 | -32.7 | | 0 | 0 |
| Cash and Reserves | 1.7 | 0.0 | 1.7 | | 0 | 0 |
| Government-Related | 0.0 | 4.9 | -4.9 | | -2 | 0 |
| Municipal | 0.7 | 0.0 | 0.7 | | 1 | 1 |
| US MBS | 0.0 | 26.5 | -26.5 | | -35 | 0 |
| CMBS | 6.5 | 1.7 | 4.8 | | 0 | 2 |
| ABS | 21.7 | 0.5 | 21.2 | | 5 | -1 |
| IG Corporate Bonds | 41.9 | 24.7 | 17.2 | | 21 | -14 |
| Senior Bank Loans | 12.3 | 0.0 | 12.3 | | 23 | -4 |
| HY Corporate Bonds | 6.2 | 0.0 | 6.2 | | 21 | 9 |

**Past performance is no guarantee future results**

Contribution figures are presented gross of fees

Data reported quarterly from September 30, 2023 to December 31, 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

Security selection detracted from relative performance, although results were mixed across sectors. Holdings of IG corporate bonds issued by electric utilities, property and casualty (P&C) insurers, and business development companies (BDCs) impacted results negatively. Positions in senior bank loans detracted in aggregate, although holdings of loans to electric utility companies had a notable positive impact on security selection. Positive selection results were experienced in holdings of HY corporate bonds.

The duration and yield curve profile contributed to results during the quarter. Agency MBS was not owned in the Fund but carries a significant weight in the Index. Agency MBS has negative convexity, and its duration can change day-to-day with changes in interest rates and interest rate volatility. We manage the portfolio's duration to replicate the Index's as transactions occur – not to changes in the Index's day-to-day duration swings – and this contributed as the Fund's duration did not decline while the Index's duration did during an episode of declining interest rates.

## Transaction Summary

We continued to find durable credits[2] offering attractive value despite dwindling attractiveness of valuations of credits in Indexes. Purchases were made across a variety of sectors and industries. Descriptions of a few notable portfolio additions are included below.

**Macy's** is a large U.S. department store chain company that boasts improving operational performance, low leverage, good liquidity, and no near-term debt maturities. We purchased the 2030 maturity, BBB- rated bonds in the secondary market at a spread of 478 basis points[3] over Treasuries for a yield of 9.7%. **IQVIA** is a global provider of advanced analytics, technology solutions, and clinical research services to the life sciences industry. The company boasts a leading market position within a favorable environment for end-market clients, a high percentage of recurring revenues and visibility, low and declining leverage, strong free cash flow[4] (FCF) generation, and an experienced and well-regarded management team. We purchased the new issue BBB- rated term loan at a spread of 200 basis points over SOFR[5] for a yield of 7.4%.

**FREMF 2023-K753** is a 2023 new-issue seven-year fixed rate $964.3 million Freddie Mac agency CMBS transaction, secured by a pool of 32 first mortgage loans across 37 properties. The properties represented are 95% multifamily and 5% senior housing facilities and manufactured housing community assets, and the occupancy rate was 95.1%. BBH was active in credit due diligence of the deal, including reviews of third-party appraisal, environmental, and engineering reports, Freddie Mac underwriting loan tapes, rating agency presale reports, on-site visits to all collateral properties, and underwriting the individual loans in the pool. We purchased positions from the deal in interest-only bonds at a spread of 447 basis points over Treasuries and in junior non-guaranteed notes.

**SIDC 2023-3A** is a data center ABS deal brought by repeat issuer **Stack Infrastructure Issuer LLC.** The ABS is secured by revenues from 10 data centers located in top U.S. markets with larger market cap customers with long-term take or pay contracts. The bonds are supported by robust credit support and structural protections. We purchased the 5-year weighted average life, A- rated bonds at a spread of 245 basis points over Treasuries for a yield of 5.9%.

In the HY market, **ams AG** came to market during the quarter. The Austrian company is the third largest sensor and photonics provider in the world behind Sony and Samsung. The company recently lowered its debt load, has a solid liquidity profile, is cushioned by a $1.0 billion equity market capitalization, and has a path to decrease leverage in 2024. We purchased the new issue 5-year, BB- rated bonds at a spread of 803 basis points over Treasuries for a yield of 12.5%.

[2] 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.

[3] 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.

[4] Free cash flow (FCF) is the cash a company generates after taking into consideration cash outflows that support its operations and maintain its capital assets.

[5] SOFR = Secured Overnight Financing Rate, which is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

**Credit Acceptance Corp** provides funding, receivables management, collection, sales training, and related services to automobile dealers. The company has a proven track record in underwriting lower tier subprime borrowers, their strength is accurately forecasting collection rates on loans, and losses have been negligible because it advances, on average, only 45% of the gross amount of the installment sales contract to dealers. We purchased the new issue 5-year, BB rated bonds at a spread of 499 basis points over Treasuries for a yield of 9.3%. **Bread Financial Holdings** is a publicly traded provider of loyalty and affinity credit card solutions. The company has a strong position in its industry, produces significant cash flow for debt servicing, and demonstrated resiliency during COVID-19. We purchased the new issue 5-year, BB- rated bonds at a spread of 548 basis points over Treasuries for a yield of 9.8%.

## Characteristics

At the end of the quarter, the Fund's duration was 6.2 years and continued to approximate that of its benchmark (see Exhibit IV). Holdings of Treasuries and reserves increased to 14% from 10% amid weakening credit valuations. Allocation to HY instruments remained near 17%. Yield to maturity was 6.5% and remained elevated versus bond market alternatives. The option-adjusted spread (OAS) was 245 basis points; for reference, the Bloomberg U.S. Corporate Index's OAS was 99 basis points at quarter-end.

**Exhibit IV: Fund Characteristics**

| Portfolio Characteristics | Portfolio | Benchmark | Active |
|---|---|---|---|
| Effective Duration (Years) | 6.23 | 6.25 | 100% |
| Spread Duration (Years) | 3.25 | 3.62 | 90% |
| Yield to Maturity (%) | 6.52 | 4.54 | 1.99 |
| Option-Adjusted Spread (bps) | 245 | 42 | 203 |

| Credit Rating (%) | Portfolio | Benchmark |
|---|---|---|
| AAA/TSY/Cash | 21.6 | 71.9 |
| AA | 8.8 | 3.9 |
| A | 25.3 | 11.7 |
| BBB | 26.9 | 12.4 |
| BB | 11.5 | 0.0 |
| B | 4.7 | 0.0 |
| CCC & Below/NR | 1.2 | 0.0 |

| Sector Allocation (%) | Portfolio | Benchmark | Active |
|---|---|---|---|
| U.S. Treasury | 11.5 | 41.7 | -30.3 |
| Reserves | 3.0 | 0.0 | 3.0 |
| Government-Related | 0.0 | 4.8 | -4.8 |
| Municipal | 0.7 | 0.0 | 0.7 |
| MBS (Agency) | 0.0 | 26.6 | -26.6 |
| RMBS (Non-Agency) | 0.0 | 0.0 | 0.0 |
| CMBS | 6.3 | 1.6 | 4.7 |
| ABS | 20.4 | 0.5 | 19.9 |
| IG Corporate Bonds | 39.4 | 24.8 | 14.6 |
| Senior Bank Loans | 12.1 | 0.0 | 12.1 |
| HY Corpoate Bonds | 6.6 | 0.0 | 6.6 |

**Portfolio holdings and characteristics are subject to change.**

Benchmark is the Bloomberg US Aggregate Bond Index

Data reported as of December 31, 2023

TSY = Treausury; MBS = Mortgage-Backed Securities; RMBS = Residential Mortgage-Backed Securities; CMBS = Commerical Mortgage-Backed Securities; ABS = Asset-Backed Securities; CLO = Collateralized Loan Obligation

Source: BBH Analysis

## Concluding Remarks

Several forces are being exerted on credit markets in 2024, and the effect on credit spreads and transaction volumes is uncertain. Valuations, potential defaults and recession, the prospect of Fed easing, heightened refinancing needs, and fund flows in a higher Treasury rate environment can cause the market to behave erratically in any given year, and this year promises to be no different. That is why strong valuation and credit disciplines are imperative to performing in the market.

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*

**This material is not authorized for distribution unless accompanied or preceded by a current Fund prospectus.**
**BBH Fund Information Service: (800) 625-5759**

Holdings are subject to change.

Totals may not sum due to rounding.

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.

The selection effect measures the investment manager's ability to select securities within a given segment relative to a benchmark.

The sector effect measures an investment manager's ability to effectively allocate their portfolio's assets to specific sectors relative to a benchmark.

**This material is not authorized for distribution unless accompanied or preceded by a current Fund prospectus.**

### 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.

"Bloomberg®" and the Bloomberg indexes are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the indexes (collectively, "Bloomberg") and have been licensed for use for certain purposes by Brown Brothers Harriman & Co (BBH). Bloomberg is not affiliated with BBH, and Bloomberg does not approve, endorse, review, or recommend the BBH Limited Duration Fund. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the fund.

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.

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. Nothing contained herein is intended as a recommendation to buy or sell any security, or to invest in any particular country, sector or asset class.

Traditional ABS include prime auto backed loans, credit cards and student loans (FFELP). Non-traditional ABS include ABS backed by other collateral types.

### Risks

Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices.

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 security 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.

Foreign investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards.

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.

**For more complete information, visit www.bbhfunds.com for a current Fund 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. Other products are offered by Brown Brothers Harriman.

Brown Brothers Harriman & Co. ("BBH"), a New York limited partnership, was founded in 1818 and provides investment advice to registered mutual funds through a separately identifiable department (the "SID"). The SID is registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940.



IM-14114-2024-01-30 BBH003880 Exp. Date 04/30/2024

**This material is not authorized for distribution unless accompanied or preceded by a current Fund prospectus.**