

Quarterly Fund Update / 3Q 2024

3Q Highlights

- The Fund outperformed the Index during the quarter as sector and rating emphases contributed to relative results. Credit spreads narrowed across sectors and qualities despite the rigorous pace of issuance during the quarter, but opportunities in select subsectors of the market remain.
- Security selection hindered results as well, but opportunities in select subsectors of the market remain.
- The Fund's sector and rating emphases detracted modestly to relative results in the quarter.

Performance as of September 30, 2024

Composite/Benchmark	Total Returns			Average Annual Total Returns			
	3 Mo	YTD	1Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception
Class I	5.12%	6.34%	14.10%	0.16%	2.56%	N/A	3.71%
Bloomberg US Aggregate Bond Index	5.20%	4.45%	11.57%	-1.39%	0.33%	N/A	1.84%

Class I Inception: 6/27/2018
Class I: Net/Gross Expense Ratio (%) 0.46 / 0.46

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, 2025. 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

Market Environment

Treasury rates continued to respond to investors' predictions for forward-looking Federal Reserve (Fed) interest rate decisions during the third quarter. The Fed cut the federal funds rate by 0.50% during the quarter, and investors shifted to predicting more aggressive rate cuts of 75 basis points (bps)¹ before year-end. Yields declined across all tenors as Treasury rates reflected expectations of larger and faster rate cuts, while fixed income indexes experienced strong total returns as interest rates declined. Excess returns to credit were overwhelmingly positive as credit spreads in mainstream indexes narrowed from already low levels to their cyclical lows.

Economic data remained strong during the quarter, with inflationary pressures waning and few signs of recession on the horizon. Headline consumer inflation prints have been declining, but wage growth and job openings remain higher than their historical averages and could still exert upward pressure on inflation. The Chicago Fed National Activity Index remains above its recession indicator.

Corporate default rates remain subdued and continue to be concentrated among CCC-rated issuers, although default rates for all rating categories are below their respective long-term averages. Business loan performance appears healthy, as delinquency rates are low and default rates are declining.

¹ 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.

Exhibit I: Fixed Income Indexes Returns

Index	Duration (Years)	Total Return (%)		Excess Return (%)	
		QTD	YTD	QTD	YTD
Morningstar LSTA Leveraged Loan Index ¹	0.3	2.04	6.54	0.67	2.47
Palmer Square CLO Debt Index ¹	0.3	2.42	10.44	1.04	6.37
Bloomberg 2 Year U.S. Treasury Bellwether Index	1.8	2.86	3.99	–	–
Bloomberg ABS ex Stranded Cost Utilities Index	1.9	3.04	4.97	0.15	0.72
Bloomberg U.S. Corporate High Yield Index	2.9	5.28	8.00	1.72	3.80
Bloomberg Non-Agency CMBS Index	3.7	4.55	7.80	0.51	3.64
Bloomberg U.S. TIPS Index	3.8	4.12	4.85	–	–
ICE BofA AA-BBB US Misc. ABS Index	3.9	3.70	7.51	-0.38	0.00
Bloomberg Intermediate Corporate Index	4.1	4.66	5.71	0.52	1.49
Bloomberg MBS Index	5.7	5.53	4.50	0.78	0.52
Bloomberg U.S. Treasury Index	6.1	4.74	3.84	–	–
Bloomberg Aggregate Index	6.2	5.20	4.45	0.40	0.61
Bloomberg EM USD Aggregate Index	6.2	5.82	8.17	1.11	4.36
Bloomberg U.S. Corporate Index	7.2	5.84	5.32	0.77	1.65
Bloomberg 10 Year U.S. Treasury Bellwether Index	8.1	5.80	3.65	–	–
Bloomberg Taxable Municipal Index	9.5	5.96	4.68	-0.04	1.34
Bloomberg Long Corporate Index	13.1	8.21	4.53	1.26	1.94

Source: Bloomberg, Morningstar LSTA, Palmer Square, ICE, Bank of America, BBH
Data reported as of September 30, 2024

Unless otherwise noted Excess Returns are 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 CLO debt.

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The U.S. consumer appears to be strong, with loan delinquency rates and loan loss rates rising to historically normal levels. Non-prime auto loan and credit card delinquencies and charge-offs are normalizing towards pre-pandemic levels, while other consumer loans are experiencing lower losses due to tightened underwriting standards since 2022. The increases in loss and delinquency rates remain within expected ranges for asset-backed securities (ABS) to withstand losses without risk of impairment to bondholders.

Commercial real estate headlines remain disconnected from property-level dynamics. High quality properties have refinanced and there have been minimal losses on paydowns in commercial mortgage-backed securities (CMBS) deals. Commercial real estate woes have not had an outsized impact on banks' commercial real estate loan portfolios to date, as delinquency rates and charge-offs have been muted. Office delinquency rates remain elevated as return to office dynamics remain weak and continue to pressure office real estate values.

Valuations

We are finding few opportunities in traditional segments of the credit markets as the percentage of potential "buy" opportunities according to our valuation framework² is screening near cyclical low levels across most sectors. According to our valuation framework, the percentage of credits that screened as a "buy" decreased to 7% from 13% for investment-grade corporate bonds, to 47% from 49% for corporate loans, and to 19% from 20% for high yield corporate bonds. Only 1% of the mortgage-backed securities (MBS) market screens as a "buy" candidate, but opportunities within those high-coupon 30-year MBS are hard to source.

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	Very small opportunity in some hard-to-source high-coupon 30-year MBS	No positions in portfolios
RMBS	Continued credit and valuation concerns	No positions in portfolios
CMBS	Opportunities arising among high-quality properties seeking to refinance	Hold positions in SASB CMBS deals where we have transparency into collateral dynamics
ABS	Opportunities remain in select sectors despite the recent narrowing of risk spreads	Hold positions across diversified set of nontraditional segments
Corporate Credit		
IG Corporate Bonds	Amount of attractively valued opportunities in benchmarks are near cyclical low levels	Holdings remain in some interest rate sensitive sectors and among certain security selection opportunities
Corporate Loans	Roughly half the universe screens attractively, but amount of opportunities dwindling	Holdings are diversified and include credits issued by health-care, airlines, and technology companies
HY Corporate Bonds	Amount of attractively valued opportunities in benchmarks are near cyclical low levels	Opportunities tend to reside in industries with challenged business models that require strong credit work
Other Credit		
Emerging Markets	Concerns remain about creditor rights in most emerging market countries	No positions in portfolios

As of September 30, 2024. Portfolio holdings and characteristics are subject to change.

MBS = Mortgage-Backed Securities; RMBS = Residential Mortgage-Backed Securities; CMBS = Commercial Mortgage-Backed Securities; ABS = Asset-Backed Securities; IG = Investment Grade; HY = High Yield; SASB = Single Asset, Single Borrower; REIT = Real Estate Investment Trust
Source: BBH

² 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.

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There remain opportunities in select subsectors of the market. Investment-grade corporate bonds in several interest rate-sensitive subsectors, such as life insurance, finance companies, and banking, continue to offer attractive opportunities. Nearly half the corporate loan market continues to screen as “buy” candidates with most opportunities present in smaller deals. In the structured credit markets, we continue to find opportunities through our bottom-up process in ABS, and opportunities are appearing in the CMBS market as property- and deal-level dynamics are disconnected from the negative headlines impacting the sector.

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

Performance

The Fund’s 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 Fund’s duration to replicate the Index’s duration 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 MBS Index’s duration did during an episode of falling interest rates.

Security selection hindered results as spreads narrowed indiscriminately from already-low levels. Subsectors that impacted selection negatively included investment-grade corporate bonds issued by banks, high-grade bonds of property and casualty insurers, and corporate loans of healthcare companies and electric utilities. Subsectors that favorably impacted selection results included floating-rate large loan CMBS and corporate loans of technology companies.

During the quarter, the Fund’s sector and rating emphases detracted modestly to relative results. The Fund was overweight to several strong-performing segments of the credit markets, particularly within its holdings of high yield corporate bonds, corporate loans, ABS, and investment-grade corporate bonds. However, the Fund’s avoidance of MBS outweighed the benefits of its holdings’ exposures, and sector and quality dragged as a result.

Transaction Summary

Exhibit IV: Transaction Summary

Obligor	Coupon	Maturity	Yield (YTM)	Rating	Spread	Spread Reference	Duration	Sector		Subsector
PFS Financing Corp	4.75	8/15/2029	4.8	AAA	95	Treasuries	2.6	ABS		Insurance-Linked ABS
Rockpoint Gas Storage	8.51	9/15/2031	8.8	BB	368	SOFR	0.0	Loan		Midstream
Hertz Vehicle Financing LLC	5.48	1/27/2031	5.5	AAA	145	Treasuries	4.5	ABS		Rental Fleet ABS
Republic Finance Issuance Trust	5.91	8/20/2032	6.0	AA	165	Treasuries	2.2	ABS		Personal Consumer Loan ABS
Guardian Life Insurance Co of America	4.18	9/26/2029	4.2	NR	68	Treasuries	4.5	Corporate Bond		Life Insurance
KKR & Co Inc	4.40	9/23/2027	4.4	A	100	Treasuries	2.8	Corporate Bond		Life Insurance
Protective Life Corp	4.34	9/13/2027	4.3	AA-	72	Treasuries	2.8	Corporate Bond		Life Insurance
Blue Owl Capital Corporation	5.80	3/15/2030	6.0	BBB-	257	Treasuries	4.6	Corporate Bond		Financial Other
Credit Acceptance Auto Loan Trust	4.85	11/15/2034	4.9	AA	145	Treasuries	2.8	ABS		Subprime Auto ABS
Bunge Limited Finance Co	4.20	9/17/2029	4.2	A-	80	Treasuries	4.4	Corporate Bond		Food and Beverage

As of September 30, 2024. Portfolio holdings and characteristics are subject to change

MBS = Mortgage-Backed Securities; CMBS = Commercial Mortgage-Backed Securities; ABS = Asset-Backed Securities; REIT = Real Estate Investment Trust
 SOFR = Secured Overnight Financing Rate, which is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

Source: BBH

Exhibit III: Performance Attribution

	Average Weight (%)			Contribution (Basis Points)		
	Portfolio	Benchmark	Selection	Rates	Sector	Selection
Total Portfolio	100.0%	100.0%	0.0%	28	-4	-20
Reserves	16.4%	44.4%	-28.0%		0	0
Government-Related	0.0%	3.7%	-3.7%		-1	0
Municipal	0.1%	0.0%	0.1%		0	0
U.S. MBS	0.0%	25.5%	-25.5%		-19	0
CMBS	6.5%	1.5%	4.9%		1	5
ABS	22.0%	0.5%	21.6%		4	-6
IG Corporate Bonds	36.5%	24.3%	12.1%		3	-15
Corporate Loans	12.4%	0.0%	12.4%		5	-3
HY Corporate Bonds	6.1%	0.0%	6.1%		5	-1

Past performance is no guarantee future results

Contribution figures are presented gross of fees

Data reported quarterly from June 30, 2024 to September 30, 2024

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

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Despite weak attractiveness of valuations of credit in indexes, we continued to find durable credits³ offering attractive value. The purchases were made across a variety of sectors and industries. The table below summarizes a few notable portfolio additions.

Characteristics

At the end of the quarter, the Fund’s duration was 6.1 years and continued to approximate that of its benchmark. There were no significant changes to the Fund’s sector allocation since last quarter. The Fund’s allocation to high yield instruments declined to 16.5%. The Fund’s yield to maturity was 5.9% and remained elevated vs. bond market alternatives. The Fund’s option-adjusted spread over Treasuries was 195 bps; for reference, the Bloomberg U.S. Corporate Index’s was 89 bps over Treasuries at quarter-end.

Exhibit V: Characteristics

Portfolio Characteristics	Portfolio Characteristics			Credit Rating (%)			Sector Allocation (%)			
	Portfolio	Benchmark	Active	Portfolio	Benchmark		Portfolio	Benchmark	Active	
Effective Duration (Years)	6.10	6.19	99%	AAA/TSY/Cash	24.1	72.9	Reserves	15.3	44.6	-29.3
Spread Duration (Years)	2.84	3.42	83%	AA	13.1	3.4	Government-Related	0.0	3.7	-3.7
Yield to Maturity (%)	5.89	4.23	1.66	A	22.2	11.5	Municipal	0.1	0.0	0.1
Option-Adjusted Spread (bps)	195	36	159	BBB	24.2	12.3	MBS (Agency)	0.0	25.4	-25.4
				BB	9.8	0.0	RMBS (Non-Agency)	0.0	0.0	0.0
				B	5.3	0.0	CMBS	5.9	1.5	4.4
				CCC & Below/NR	1.4	0.0	ABS	21.8	0.5	21.4
							IG Corporate Bonds	39.1	24.3	14.8
							Corporate Loans	12.2	0.0	12.2
							HY Corporate Bonds	5.4	0.0	5.4

Portfolio holdings and characteristics are subject to change.

Benchmark is the Bloomberg US Aggregate Bond Index

Data reported as of September 30, 2024

TSY = Treasury; MBS = Mortgage-Backed Securities; RMBS = Residential Mortgage-Backed Securities; CMBS = Commercial Mortgage-Backed Securities; ABS = Asset-Backed Securities; IG = Investment Grade; HY = High Yield

Source: BBH

Concluding Remarks

Credit conditions are disconnected from the U.S. political headlines garnering attention. Inflation, corporate defaults, loan losses, and loan delinquencies have normalized to manageable levels. Risk spreads decreased to cyclical lows, suggesting investor exuberance may be creeping into some deals. The Fed’s rate cuts do not appear to be driven by concerns over a weak economy; rather, the cuts should help to ease restraints imposed on consumers and businesses. Given already strong credit conditions in many sectors, this may be a positive for many borrowers. The biggest risk facing credit investors may not be losses driven by macroeconomic weakness, but rather inattentiveness to valuations and durability during a period of ebullience. We believe the valuation and credit disciplines embedded in our bottom-up process are essential for navigating this environment.

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



³ 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.

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Holdings are subject to change.

Totals may not sum due to rounding.

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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.

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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.

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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.

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May Lose Money

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