

# BBH Inflation-Indexed Fixed Income

Strategy Fact Sheet / 3Q 2021

## PRINCIPAL STRATEGY AND OBJECTIVES<sup>1</sup>

Our portfolios aim to provide inflation protection and deliver returns in excess of passive alternatives. We have built a diversified set of pure-play, actively-managed strategies seeking to capture extra return in the TIPS market. Our strategies identify and exploit repeatable patterns and other forms of market inefficiencies.

## INVESTMENT CRITERIA

We Use the following set of diversified set of pure-play, actively-managed strategies to seek excess returns.

1. Fundamental Strategies
  - a. Real Yield Duration
  - b. Real Yield Slope vs. Nominal Yield Slope
2. Non-Directional Strategies
  - a. Roll-Down
  - b. Auction Cycle Trading
  - c. Seasonal Pattern
  - d. Deflation Floor
  - e. Index Pattern
3. Opportunistic Strategies
  - a. Nominal Bonds – Breakeven
  - b. Non-Dollar linkers

We evaluate environmental, social and governance (ESG) factors as part of our investment research process to help us effectively assess the long-term sustainability and durability of our companies and credits.

## INVESTMENT PRINCIPLES

- **Pure-play Active Management**
- **Research-Informed Decisions**
- **Long-term Perspective**
- **Discipline and Patience**

## PORTFOLIO MANAGER



### James J. Evans, CFA

Jim Evans leads the portfolio management effort for the fixed income inflation-indexed strategy and has over 30 years of fixed income investment experience. Prior to joining BBH in 2000, Jim worked in different aspects of fixed income portfolio management and believes that long-term valuation combined with strategies based on repeatable patterns delivers the best risk-adjusted portfolio returns for clients. Jim graduated from the University of Delaware with a B.S. in accounting, New York University with an MBA in finance, and is a CFA Charterholder.

## PRIMARY INFLATION LINKED STRATEGIES

- **Security Selection/Roll-Down:** BBH uses proprietary analytics to identify and concentrate portfolio holdings in a sub-set of securities with superior risk and return qualities relative to the benchmark.
- **Yield Curve Management:** BBH will seek to alter the term structure of the portfolio securities based on an observed lag that exists between the reshaping of the real yield curve relative to an earlier reshaping of the nominal yield curve.
- **Duration Management:** BBH will seek to adjust the average real yield duration of the Strategy, typically by no more than +/- one year relative to benchmark, based upon fundamental judgments and signals from BBH's proprietary multi-factor macroeconomic valuation model.
- **Auction Cycle Trading:** BBH will seek to take advantage of supply/demand imbalances that typically occur around TIPS auctions.
- **Seasonal vs. Non-Seasonal Consumer Price Index (CPI):** BBH will seek to position the Strategy to take advantage of the seasonality of CPI.
- **Nominal Bond Arbitrage:** BBH will seek to make tactical shifts into and out of nominal U.S. government securities based on BBH's assessment of relative value between TIPS and nominal government securities.
- **Non-U.S. Inflation Indexed Securities:** BBH will make tactical allocations in non-U.S. inflation indexed bonds on a fully U.S. dollar-hedged basis based on BBH's assessment of relative value between these assets and TIPS.
- **Deflation Floor Valuation:** U.S. TIPS securities mature at par or the accrued value adjusted for CPI inflation, whichever is higher. This unique quality creates a "deflation floor" value that is different from bond to bond. BBH uses its proprietary modeling to value this deflation floor option and will overweight and underweight individual bonds accordingly.

<sup>1</sup> There can be no assurance the Strategy will achieve its investment objectives.

Previously called the BBH Inflation-Indexed Securities Strategy.

**Performance**  
As of September 30, 2021

**Total Returns**

**Average Annual Total Returns**

| Composite/Benchmark   | Total Returns |       | Average Annual Total Returns |       |       |        | Since Inception |
|---|---------------|-------|------------------------------|-------|-------|--------|-----------------|
|   | 3 Mo.*        | YTD*  | 1 Yr.                        | 3 Yr. | 5 Yr. | 10 Yr. |                 |
| <b>BBH Inflation-Indexed Fixed Income Composite (Gross of Fees)</b> | 1.50%         | 3.50% | 4.87%                        | 7.40% | 4.32% | 3.28%  | 5.85%           |
| <b>BBH Inflation-Indexed Fixed Income Composite (Net of Fees)</b>   | 1.46%         | 3.38% | 4.71%                        | 7.24% | 4.16% | 3.13%  | 5.70%           |
| <b>Bloomberg US TIPS Index</b>                                      | 1.75%         | 3.51% | 5.19%                        | 7.44% | 4.34% | 3.12%  | 5.48%           |

\* Returns are not annualized. The Inflation-Indexed Fixed Income Composite inception date is 04/01/1997.

Sources: BBH & Co. and Bloomberg

**Past performance does not guarantee future results.**

**Representative Account  
Credit Quality  
As of September 30, 2021**

|                           | Representative Account | Bloomberg US TIPS Index |
|---------------------------|------------------------|-------------------------|
| Cash and Cash Equivalents | 3.8%                   | 0.0%                    |
| U.S. Treasuries           | 96.2%                  | 100.0%                  |
| AAA                       | 0.0%                   | 0.0%                    |
| AA                        | 0.0%                   | 0.0%                    |
| A                         | 0.0%                   | 0.0%                    |
| BBB                       | 0.0%                   | 0.0%                    |
| Not Rated                 | 0.0%                   | 0.0%                    |
| <b>Total</b>              | <b>100.0%</b>          | <b>100.0%</b>           |

**Representative Account  
Sector Distribution  
As of September 30, 2021**

|  | Representative Account | Bloomberg US TIPS Index |
|--|------------------------|-------------------------|
| Cash and Cash Equivalents              | 3.8%                   | 0.0%                    |
| U.S. Treasuries                        | 2.2%                   | 0.0%                    |
| U.S. Inflation-Indexed Securities      | 94.1%                  | 100.0%                  |
| Inflation-Indexed Agency Securities    | 0.0%                   | 0.0%                    |
| Inflation-Indexed Corporate Securities | 0.0%                   | 0.0%                    |
| Non-U.S. Inflation-Indexed Securities  | 0.0%                   | 0.0%                    |
| Inflation-Indexed Municipal Securities | 0.0%                   | 0.0%                    |
| <b>Total</b>                           | <b>100.0%</b>          | <b>100.0%</b>           |

**Representative Account  
Duration Distribution  
As of September 30, 2021**

|              | Representative Account | Bloomberg US TIPS Index |
|--------------|------------------------|-------------------------|
| 0 - 1 Yr.    | 3.8%                   | 0.0%                    |
| 1 - 3 Yrs.   | 5.3%                   | 19.8%                   |
| 3 - 5 Yrs.   | 43.4%                  | 27.5%                   |
| 5 - 10 Yrs.  | 31.8%                  | 35.7%                   |
| 10 - 15 Yrs. | 0.0%                   | 0.0%                    |
| 15+ Yrs.     | 15.7%                  | 17.1%                   |
| <b>Total</b> | <b>100.0%</b>          | <b>100.0%</b>           |

**Representative Account  
Top 10 Holdings / Coupon / Maturity  
As of September 30, 2021**

| United States Treasury Inflation Protected Securities | 0.375% | 1/15/2027  | 13.0%        |  |
|---|--------|------------|--------------|--|
| United States Treasury Inflation Protected Securities | 0.125% | 10/15/2024 | 12.2%        |  |
| United States Treasury Inflation Protected Securities | 0.250% | 1/15/2025  | 11.5%        |  |
| United States Treasury Inflation Protected Securities | 3.625% | 4/15/2028  | 11.5%        |  |
| United States Treasury Inflation Protected Securities | 0.125% | 4/15/2025  | 11.0%        |  |
| United States Treasury Inflation Protected Securities | 0.125% | 2/15/2051  | 10.3%        |  |
| United States Treasury Inflation Protected Securities | 2.375% | 1/15/2025  | 8.7%         |  |
| United States Treasury Inflation Protected Securities | 0.875% | 1/15/2029  | 7.3%         |  |
| United States Treasury Inflation Protected Securities | 0.625% | 4/15/2023  | 5.3%         |  |
| United States Treasury Inflation Protected Securities | 0.750% | 2/15/2042  | 3.3%         |  |
| <b>Total</b>  |        |            | <b>94.1%</b> |  |

**Representative Account  
Portfolio Characteristics  
As of September 30, 2021**

|                            | Representative Account | Bloomberg US TIPS Index |
|----------------------------|------------------------|-------------------------|
| Effective Duration (years) | 7.47                   | 7.76                    |
| Real Yield to Maturity     | -1.57%                 | -1.44%                  |

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. 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.

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.

## Risks

The value of the portfolio can be affected by changes in interest rates, general market conditions and other political, social and economic developments. Each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

Investing in the bond market is subject to certain risks including market, interest-rate, issuer, credit, maturity, call and inflation risk; investments may be worth more or less than the original cost when redeemed. Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices.

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

The strategy may also invest 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.

Holdings are subject to change. Totals may not sum due to rounding.

Bloomberg US Treasury Inflation-Protected Securities (TIPS) Index represents securities that protect against adverse inflation and provide a minimum level of real return. To be included in this index, bonds must have cash flows linked to an inflation index, be sovereign issues denominated in U.S. currency and have more than one year to maturity, and, as a portion of the index, total a minimum amount outstanding of 100 million U.S. dollars. An individual cannot invest directly in an index.

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Effective duration is a measure of the portfolio's return sensitivity to changes in interest rates.

Credits: 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.

Data presented is that of a single representative account ("Representative Account") that invests in the strategy. It is the account whose investment guidelines allow the greatest flexibility to express active management positions. It is managed with the same investment objectives and employs substantially the same investment philosophy and processes as the proposed investment strategy.

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Gross of fee performance results for this composite do not reflect the deduction of investment advisory fees. Actual returns will be reduced by such fees. "Net" of fees performance results reflect the deduction of the maximum investment advisory fees. Returns include all dividends and interest, other income, realized and unrealized gain, are net of all brokerage commissions, execution costs. Results will vary among client accounts. Performance calculated in U.S. dollars.

The objective of our Inflation-Indexed Fixed Income Strategy is to deliver excellent returns in excess of industry benchmarks through market cycles. The Composite included all fully discretionary, fee-paying domestic accounts over \$10 million with an emphasis on U.S. inflation indexed securities. May invest up to approximately 25% outside of U.S. inflation indexed securities, and a duration of approximately 7-9 years. Accounts that subsequently fall below \$9.25 million are excluded from the Composite. As of 10/1/2020, the Treasury Inflation Protected Securities Composite was renamed BBH Inflation-Indexed Fixed Income.

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