March 2025

The Case for the International All Company Strategy

Why international equity markets may be ripe for our Exceptional Growth Company investment approach.

INTRODUCTION

No question about it, the U.S. has been the place to be in the 2020s, in terms of equity returns. From the end of 2019 to the end of 2024, the U.S. stock market, as measured by the S&P 500, has returned 14.53% a year, while international equities have lagged significantly, with the MSCI EAFE index increasing just 5.24%. Overall, that five-year period was quite tumultuous for the global economy, what with a 100-year pandemic and the fastest rising interest rates in 40 years in many major economies. In 2022, economies around the world experienced rapidly rising inflation and interest rates, fueled in turn by COVID-19-related government stimulus and supply-chain shortages. This hurt equity returns globally, with the MSCI EAFE index falling 14.01% that calendar year. Since then, stocks around the world have recovered, with investor enthusiasm over artificial intelligence (AI) and the "Magnificent Seven" driving up valuations and returns of the U.S. equity indexes in particular.

After such a period of international equity underperformance, many investors are questioning the opportunity in the asset class. In this article, we will answer three important questions:

1. **Why invest in international equities?**
2. **Why choose Brown Capital for international equity exposure?**
3. **Why now?**

As you will see, we think now is a particularly exciting time to consider the International All Company strategy.

By Zoey Zuo, Managing Director and Sr. Portfolio Manager, International Team

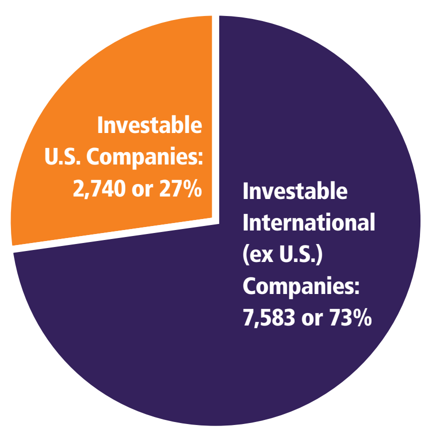
1. Why invest in international equities?

The international universe is vast. According to Bloomberg, there are 81,036 stocks globally as of Dec. 31, 2024. Of those, 10,323 companies meet minimal criteria for liquidity and are headquartered in the 38 countries in which the International All Company Fund is approved to trade. As Chart 1 shows, these 10,323 investable companies are overwhelmingly international, with 7,583, or 73% of them, located outside the U.S. Put another way, there are nearly three times as many minimally investable companies outside the U.S. as there are within it. We define this collection of approximately 7,600 stocks as the universe of international companies.

The international universe is heterogeneous. The investable universe for the International All Company strategy includes developed markets such as the U.K., as well as some emerging markets such as India. Importantly, equities from these countries are largely uncorrelated with one another. After all, a South African

Chart 1: There are three times as many minimally investable companies outside the U.S. than inside it.

MINIMALLY INVESTABLE COMPANIES: U.S. VS INTERNATIONAL (as of Dec. 31, 2024)



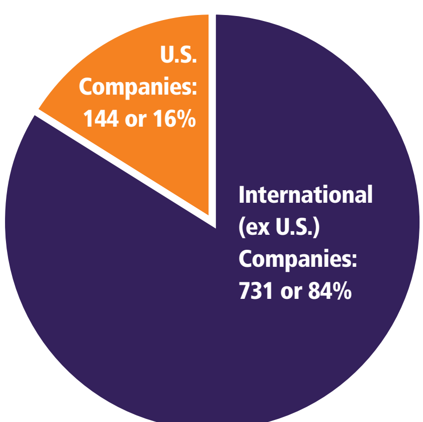
Source: Bloomberg

restaurant franchisor, for example, doesn't have much in common with a Japanese ecommerce platform provider. Even companies within an industry—say, online real estate portals—may have important fundamental differences from country to country. For portfolio managers, the ability to select compelling companies with business models uncorrelated with one another is a compelling attribute of the asset class.

The international universe is attractive. Of course, it's not enough for a universe to be large and varied; it must also contain attractive companies to invest in. To evaluate the relative attractiveness of the international universe, we created a basic fundamental screen of revenue growth, return on invested capital and balance sheet strength. Our search yielded 875 results. Of that, 731 companies, or 84%, are based outside the U.S., as shown in Chart 2. While we think this exercise demonstrates the relative attractiveness of international companies, it does not reflect any specific criteria or methodology in our portfolio construction. At Brown Capital, we incorporate a comprehensive set of quantitative and qualitative insights rather than relying on just a few metrics.

Chart 2: The companies that pass a basic fundamental screen are largely international

**COMPANIES PASSING FUNDAMENTAL SCREEN:
U.S. VS INTERNATIONAL (as of Dec. 31, 2024)**



Source: Bloomberg

So, the international universe is not only enormous but also teeming with interesting companies. The question is how best to find them.

International equities are less covered by research analysts. Another distinguishing characteristic of international equities is the lack of research coverage of them, which creates opportunities for research-based active managers. Using the fundamental attractiveness screen cited above, we looked at the number of analysts covering each of the 875 passing global companies. Out of the U.S. stocks, only 15% are covered by fewer than five sell-side analysts. The equivalent number for international companies is nearly twice that, or 28%, showing the greater opportunity for fundamental research to add value in international equities. Coverage may get spottier going forward. Globally, the pool of sell-side equity research analysts has been shrinking, due to regulatory changes, the rise of passive strategies and cost-cutting.

Investors are often under-allocated to international equities. Another attraction to international equities may be the growing recognition that investors are generally under-allocated to the asset class. According to Dow Jones Market Data, the total global stock market capitalization as of the end of 2024 was around $125 trillion, split roughly evenly between U.S. equities and international equities. That means that an equity portfolio holding 50% international stocks would represent a "neutral" international allocation. Most institutional portfolios have nowhere near that exposure to international equities, meaning that investors are significantly underweight international stocks. One reason for this may be the well-documented "home bias" that U.S.-based investors have toward domestic equities and away from foreign companies. Whatever the cause, under-allocation to international equities may be particularly risky now, given the unprecedented concentration of the U.S. stock market. At the end of 2024, 28% of the total U.S. market capitalization was comprised in just seven companies, the so-called Magnificent Seven tech giants—Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla and Meta.

2. Why choose Brown Capital for international equity exposure?

Brown Capital's proprietary Exceptional Growth Company approach has a proven track record. The Brown Capital International All Company strategy was launched in 1999 but has evolved significantly in the last quarter century. For starters, the name of the strategy has changed, having begun as the International Equity strategy. Our International Team, too, has shifted and grown over time, now comprising six members. Most notably, we repositioned the portfolio from a core style to the Exceptional Growth Company (EGC) approach that we now employ firm-wide, including in the Small Company and International Small Company strategies. EGCs, we believe, are the rare companies with sustained long-term growth prospects and the potential to return multiples of initial investment, instead of just percentages. We completed that repositioning process five years ago, at the end of 2019, and we think the re-orientation of the strategy to the EGC concept is significant enough that investors should consider Dec. 31, 2019, as the start date for evaluating International All Company performance under the EGC philosophy.

The EGC approach is a proven one across Brown Capital's other strategies. The Small Company Fund (Investor shares) has generated 3.14% annual excess returns over the Russell 2000® Growth index from the Fund's inception on July 23, 1992, to Dec. 31, 2024. The International Small Company Fund (Investor shares) has outperformed the MSCI ACWI ex US Small Cap index by 4.29% a year since its inception on July 29, 2015. Unfortunately, as the Performance summary below discusses, the International All Company Fund has not yet generated similar results since adopting the EGC approach five years ago. The bottom line is the Fund's trailing returns have been impacted by the highly challenging period of the year 2022, in particular, but we are pleased with the operational results of our companies.

International All Company Strategy

Investment Approach

The Brown Capital Management International All Company strategy seeks to invest in the securities of small (less than $500 million in revenue), mid-sized ($500 million to $2.5 billion in revenue), and large (over $2.5 billion in revenue) EGCs primarily based in developed markets outside the U.S. The EGC approach was originally developed by Brown Capital's **Keith Lee** and **Bob Hall** in the early 1990s. The Small Company Team employed the approach to great effect over the decades, growing the Small Company strategy into an exceptional long-term outperformer compared to its benchmark and peer group.Then it 2013, Brown Capital launched the International Small Company strategy to apply the EGC approach to markets outside the U.S.

The center of the approach is, of course, the concept of Exceptional Growth Companies (EGCs). EGCs are the rare companies with discernible paths to sustained long-term growth. We think EGCs save time, lives, money and headaches, or provide extraordinary value to the consumer. We believe that these companies often provide goods and services that their customers consider essential, or they would rather not do without. It is our aim to identify these companies early in their growth cycles and hold them for several years or even decades as they compound their growth.

Specific investment criteria we look for include:

- **Durable revenue streams**
- **Defendable market positions**
- **Deliverable growth plans; and**
- **Profitability to fuel their growth**

The International All Company strategy is managed by the six-person International Team, which also manages the highly successful International Small Company strategy. The two portfolios are carefully coordinated, with roughly one-third of International All Company holdings overlapping with or graduating from the International Small Company portfolio.

Performance

Since we repositioned the International All Company strategy to the EGC approach on Dec. 31, 2019, the Fund (Investor shares) has returned 3.17% annually, trailing the 5.24% annual return for the MSCI EAFE. While we are pleased with the fundamentals and the growth profiles of our portfolio companies, we are disappointed that our returns haven't followed yet. As the table below shows, the International All Company Fund lagged the benchmark significantly in 2022 (excess return -17.36%), hurting our annualized average returns. The year 2022 was characterized by rising inflation globally driven by post-COVID-19 supply-chain disruptions, pent-up demand from the economic reopening after the pandemic, and massive government spending. Given rapidly rising inflation and the ensuing rate hikes, investors shifted out of stocks generally, sending the broad market indexes downward. Within equities, investors fled the types of high-quality, long-duration growth stocks we invest in, hurting valuations.

The objective of the International All Company strategy is to generate excess returns over investment periods of five years or more. We remain enthusiastic about our ability to fulfill our objective going forward. Despite the toll of a highly unusual calendar year 2022, we are pleased with the operational results of our portfolio companies since we repositioned to the EGC philosophy five years ago.

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QUARTER END RETURNS as of 12/31/2024

	Annualized							
	Since Inception*	20 Years	15 Years	10 Years	5 Years	3 Years	1 Year	3 Months
International All Company Fund (Investor shares)	4.10%	4.28%	4.95%	4.50%	3.17%	-4.41%	-0.83%	-6.72%
MSCI EAFE	4.93%	5.31%	5.74%	5.71%	5.24%	2.17%	4.35%	-8.06%
MSCI All Country World Index Ex U.S.	5.24%	5.45%	5.17%	5.31%	4.61%	1.35%	6.09%	-7.50%
Morningstar Category: U.S. Fund Foreign Large Growth	N/A	N/A	N/A	5.81%	4.11%	-3.14%	5.17%	-6.94%
Excess Return Over Benchmark	-0.83%	-1.03%	-0.79%	-1.21%	-2.07%	-6.58%	-5.18%	1.34%

CALENDAR YEAR RETURNS as of 12/31/2024

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
International All Company Fund (Investor shares)	7.31%	-6.41%	23.62%	-11.98%	21.58%	24.29%	7.46%	-31.37%	28.36%	-0.83%
MSCI EAFE	-0.39%	1.51%	25.62%	-13.36%	22.66%	8.28%	11.77%	-14.01%	18.85%	4.35%
MSCI All Country World Index Ex U.S.	-5.25%	5.01%	27.77%	-13.78%	22.13%	11.13%	8.29%	-15.57%	16.21%	6.09%
Morningstar Category: U.S. Fund Foreign Large Growth	0.75%	0.70%	31.78%	-14.43%	28.07%	25.01%	7.00%	-25.29%	16.17%	5.17%
Excess Return Over Benchmark	7.70%	-7.92%	-2.00%	1.38%	-1.08%	16.21%	-4.31%	-17.36%	9.51%	-5.18%

Excess Return Over Benchmark is the difference between the return of the Fund and the MSCI EAFE.

*Source: CFS. *Inception date for the Institutional Share Class is 8/1/2014. Performance of the Institutional Share Class prior to 8/1/2014 is based on the performance of the Investor Share Class. Inception date for the Investor Share Class is 5/28/1999. As identified in the current Fund prospectus, the gross operating expense ratio for Investor Class was 1.90% before waiver and 1.25% after. As identified in the current Fund prospectus, the gross operating expense ratio for Institutional Class was 1.64% before waiver and 1.00% after. Brown Capital Management, LLC (the "Advisor") has entered into an Expense Limitation Agreement with the Fund under which it has agreed to reduce the amount of the investment advisory fees to be paid to the Advisor by the Fund and to assume other expenses of the Fund, if necessary, in an amount that limits the Fund's annual operating expenses through at least July 31, 2025. Please see prospectus for additional information.*

The performance data quoted represent past performance. Returns are presented net of fees. Past performance is no guarantee of future results and investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Performance current to the most recent month-end may be found at www.browncapital.com or by calling 1-877-892-4226. Please see disclosures.

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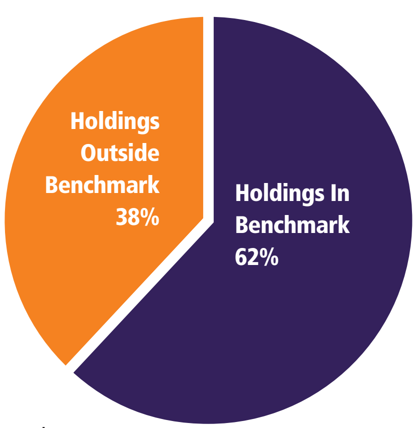
2. Why choose Brown Capital for international equity exposure?, cont.

We are free to search through the international universe to find EGCs, unconstrained by the benchmarks. Simply put, the international indexes do not address the vastness of the international universe. The two most commonly used international equity indexes are the MSCI EAFE index (the stated benchmark for the International All Company strategy) and the MSCI All Country World ex US index. As of Dec. 31, 2024, the EAFE index comprises 722 companies in developed markets only, while the ACWI ex US index captures 2,057 companies. The key point is that both indexes, however, pale in comparison to the size of the international equity universe of approximately 7,600 companies. The bottom line: Investors who restrict themselves to just an index are missing out on most of the international equity universe.

As benchmark-agnostic managers, we understand that our portfolio portfolio behaves quite differently than the indexes. Because we search throughout the entire international universe, not just the more limited sets of companies in the index, quite often, we invest in companies that fall outside the common benchmarks. In fact, as Chart 3 shows, more than one-third of the International All Company portfolio is invested in companies outside the MSCI EAFE index, as of Dec. 31, 2024. Furthermore, when building the portfolio, we make no portfolio decision based on anything to do with an index—its composition, its weightings, its sectors or its performance. So, there are almost always sectors or areas in which our portfolio is more concentrated and other areas in which we have fewer (if any) holdings.

Chart 3: More than one-third of the International All Company Fund holdings are outside the MSCI EAFE index.

PERCENTAGE BY WEIGHT OF INTERNATIONAL ALL COMPANY FUND HOLDINGS IN MSCI EAFE INDEX (as of Dec. 31, 2024)



Source: Bloomberg

The concentration of our portfolio allows us to perform deep-dive, bottom-up research on our companies. The International Team comprises six co-equal portfolio manager/analysts, who together manage both the International All Company and the International Small Company portfolios. Each of the portfolios is about 40 companies, but there is some overlap between the two strategies. In total, we hold roughly 70 distinct names. With six dedicated portfolio managers covering approximately 70 companies across the two portfolios, we have the resources to perform thorough, focused coverage. The deep understanding we have of each company that we gain through our research underpins our conviction and allows us to hold our companies for years and even decades.

3. Why now?

The International All Company portfolio's fundamentals have improved in the five years since we adopted the EGC approach. While the investment returns of the International All Company strategy returns have not kept pace over the last five years, by and large our portfolio companies have performed well operationally. Chart 4 shows four characteristics of the International All Company Fund as of the end of 2019 and the end of 2024. While we do not manage the portfolio to specific metrics, in toto, our holdings are more profitable, higher margin and financially stronger than they were five years ago. We remain convinced that over time, these compelling characteristics will be reflected in share prices.

Chart 4: The fundamentals of the International All Company portfolio have improved significantly in the last five years

INTERNATIONAL ALL COMPANY PORTFOLIO CHARACTERISTICS

International All Company Fund	12/31/19	12/31/24
Long-Term EPS Growth	10.8%	25.4%
Return on Equity	14.3%	15.8%
Operating Profit Margin	13.0%	17.5%
Net Debt to Equity	44.1%	18.8%

Source: Bloomberg; Long-Term EPS growth reflects Bloomberg consensus.

Fundamentals remain relatively compelling for the international equity universe. Chart 5 shows five key characteristics of the 875 companies that passed our basic screen of fundamental attractiveness cited above, divided into international and U.S.-domiciled groups. You can see that the two groups share similar values for return on invested capital, EBIT margin and forward P/E. However, international companies demonstrate much higher sales growth (19.0% vs. 11.9%) and much lower net debt to equity (-27.2% vs. -6.7%, indicating more cash on international balance sheets). This means that the International Team has plenty of compelling companies to consider for future investment.

Chart 5: The international universe is relatively attractive

CHARACTERISTICS OF INTERNATIONAL VS U.S. COMPANIES (as of Dec. 31, 2024)

	U.S.	International
Sales Growth YoY (median)	11.9%	19.0%
Return on Invested Capital 5-Year (median)	14.1%	13.3%
Net Debt to Equity (median)	-6.7%	-27.2%
EBIT Margin (median)	17.8%	17.2%
Forward P/E (harmonic mean)	16.6x	16.7x

Source: Bloomberg

Institutional flows are showing signs of recovering. The tough times for international equity markets that started in 2022 have taken a toll on institutional flows. Chart 6 shows institutional flows as a percentage of starting assets, according to Evestment. As you can see, after pouring money into ACWI ex-US Equity strategies in 2020 and 2021, institutional investors have withdrawn assets from international strategies since 2022. That trend showed signs of reversing in the last half of 2024, though.

Perhaps it is the more favorable macro environment or the valuation gap that is fueling renewed investor interest in recent quarters. Whatever the case, now is a good time for savvy investors to consider closing the allocation gap with international equities.

Chart 6: Institutional inflows into international equities may be resuming.

INSTITUTIONAL INFLOWS AS A PERCENTAGE OF STARTING AUM

Asset Class	2020	2021	2022	2023	2024
All ACWI ex-U.S. Equity	3.5%	4.1%	-2.0%	-3.0%	-2.4%
All U.S. Equity	-4.5%	-3.3%	-1.4%	-4.7%	-2.9%

Source: Evestment and Brown Capital analysis

Innovative companies across the globe are poised to capitalize on the next legs of AI and other disruptive technologies. While U.S. companies have led the charge in the buildout of hardware for AI—dominating in semiconductor design, cloud infrastructure and foundational AI algorithm development—companies across the globe will lead the next waves of digital transformation across industries. The real economic value of AI will be realized in its application within each industry, enhancing productivity and decision making. For example, **SAP** is a Germany-based Enterprise Resource Planning (ERP) software company. Its copilot, Joule, combines Generative AI capabilities with semantically aligned business data within SAP to boost workflow efficiency with high accuracy. This is particularly important in mission-critical use cases such as cash collection. For instance, Joule can analyze payment disputes and recommend resolutions based on unstructured data across finance, customer service and operations. The company reported that 50% of deals signed in the fourth quarter of 2024 incorporated AI, up from 30% the previous quarter. We expect that this trend will strengthen SAP's competitive position and create further revenue growth opportunities for years to come. This trend of innovations broadening out from hardware to applications is something we have seen in other disruptive technologies such as the cloud (the rise of SaaS applications) and the internet (in applications such as e-commerce and FinTech), driving long-term growth opportunities for international companies. We look forward to helping investors benefit from these trends in the years to come.

For More Information

To discuss the Brown Capital International All Company strategy, please contact Amy Perez Jackson at aperezjackson@browncapital.com or 443-573-6432.

Disclosures

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1 Brown Capital Management, LLC (the "Advisor") has entered into an Expense Limitation Agreement with the International All Company Fund under which it has agreed to reduce the amount of the investment advisory fees to be paid to the Advisor by the International All Company Fund and to assume other expenses of the International All Company Fund, if necessary, in an amount that limits the International All Company Fund's annual operating expenses (other than interest, taxes, brokerage commissions, acquired fund fees and expenses, other expenditures which are capitalized in accordance with generally accepted accounting principles, other extraordinary expenses not incurred in the ordinary course of the International All Company Fund's business, and amounts, if any, payable under a Rule 12b-1 distribution plan) to not more than 1.00% until July 31, 2024. The Expense Limitation Agreement may not be terminated by either party prior to that date. Subject to certain conditions such as Fund asset levels being at certain thresholds and operating expenses being less than the operating expenses limit for the International All Company Fund, the International All Company Fund may reimburse the Advisor for fees waived or limited and other expenses assumed by the Advisor pursuant to the Expense Limitation Agreement. Each waiver or reimbursement of an expense by the Advisor is subject to repayment by the International All Company Fund within three years following the month in which the expense was incurred, provided that the International All Company Fund is able to make the repayment without exceeding the lesser of the expense limitation in place at the time of the waiver and/ or reimbursement or the current expense limitation arrangement.

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The **MSCI EAFE (Europe/ Australia/Asia/Far East) Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding U.S. and Canada. The MSCI All Country World ex US Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. **Morningstar US Fund Foreign Large Growth Category**: Portfolios focus on high-priced growth stocks, mainly outside of the United States. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex Japan). Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). These portfolios typically will have less than 20% of assets invested in U.S. stocks. The volatility (beta) of an account may be greater or less than it's respective benchmark. One may not invest directly into an index.

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