



## International All Company Fund – Investor and Institutional Share Classes

This year the International All Company strategy marked its 25<sup>th</sup> anniversary. It's worth taking a moment to reflect on how much the world has changed in that time. In the last quarter century, the focus has moved from ecommerce to artificial intelligence, flip phones have become smart phones, and investment markets have navigated several wars, a global financial crisis, a pandemic and even the first period of high inflation and high interest rates since the 1980s.

Regarding the last development mentioned—high inflation/high interest rates—we saw evidence this quarter that it may be coming to an end. This quarter, central banks around the world began loosening monetary policy now that inflation has abated. The U.S. Federal Reserve joined in and cut interest rates 50 basis points in mid-September. For international equity investors, this reversal of global monetary policy changed a persistent headwind into a tailwind and helped propel markets in the third quarter. International stocks performed quite well in the period, with the MSCI EAFE index returning an impressive 7.33% in the quarter. Unfortunately, the International All Company Fund (Investor shares) returned just 5.19% in the period, underperforming the index by 2.14 percentage points. We had mostly performed in line with the index until the last six days of the quarter, when cyclical sectors rallied once China implemented a significant stimulus package, including cutting interest rates. In the short term our returns can be impacted by these types of market shifts, but we believe fundamentals drive performance long term.

The International All Company investment strategy, too, has evolved in this period. Our International Team has shifted and grown over time and now totals six members. Even the name of the strategy has changed, having started out as the International Equity strategy. Most notably, we repositioned the portfolio from a core style to the Exceptional Growth Company (EGC) approach that we now employ firmwide, including in the International Small Company strategy. We completed that repositioning process at the end of 2019, and overall, we are pleased with the fundamental performance of the portfolio since then.

Unfortunately, our trailing returns since the repositioning have been hampered by the year 2022, when the strategy underperformed the benchmark by more than 1,700 basis points, using the Investor shares of the Fund as a proxy. 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 higher inflation and the ensuing rate hikes, investors shifted out of stocks generally, hurting the broad market indexes. Within equities, investors fled the types of high-quality growth stocks we invest in, hurting valuations. Of course, as long-term investors, we were focused at the time on the operational results of our portfolio companies, not on macroeconomic forecasts or investor sentiment.

One of the many benefits of repositioning the Fund along the EGC approach is the synergy with the International Small Company strategy, which our team also manages. You can think of the International All Company portfolio as having three logical tranches, which we will explore below:

1. Holdings that overlap with the International Small Company strategy
2. Early-stage growth companies that have annual revenue greater than \$500 million
3. Mid-sized or large companies that face a durable growth opportunity

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When we think about holding a company in both strategies, we look at portfolio fit, liquidity and capacity. A good example is **REA**, the Australian real estate portal that allows real estate agents to match sellers with potential buyers. We first bought REA in the International Small Company portfolio at its inception in 2013 and added it to the International All Company strategy in 2020. At that time, we thought that REA fit the International All Company portfolio based on its industry and business model. In addition, we verified that REA had sufficient shares available for trading (by looking at float and average daily trading volume, among other things) so that we could build and exit a position without unduly affecting share prices. Finally, there's capacity. Brown Capital does not want to own too high a percentage of a company's total shares outstanding. Today, REA's market capitalization is around 28 billion AUD (or \$19 billion USD) so we can have quite sizable positions in REA in both portfolios without owning too much of the company from a risk-management point of view.

The second tranche is EGCs that are still early-stage growth companies but whose annual revenue exceeds \$500 million, making them ineligible for the International Small Company portfolio. This is an expanding opportunity set for us, as companies are going public later in their lifecycles. One complicating factor is that companies are taking longer to approach profitability after going public. One example of such a company in the International All Company portfolio is **Monday.com**, an Israel-headquartered, cloud-based workflow-management solutions provider. Monday IPO-ed in June 2021 and its revenue exceeded \$500 million by the end of the next year. It has generated significant positive free cash flow since 2023, when we first purchased it, and the company finally achieved positive GAAP earnings in the second quarter of 2024.

The third tranche is larger companies that have found a second (or third, or fourth) growth curve. The best example of that in the portfolio today is **Novo Nordisk**, the Denmark-based, global pharmaceutical company. Although its insulin business has matured, this EGC has found tremendous growth in obesity care, as discussed in the Detractors section below. As we know well at Brown Capital, in a rapidly changing world, the ability to evolve is key.

### Returns—Contributors and Detractors

Among the contributors in the third quarter were MercadoLibre and MonotaRO.

**MercadoLibre** is a Uruguay-based company that operates the leading e-commerce shopping platform in Latin America (like Amazon) and provides payment and credit services (like PayPal). Although Latin America is a large market with a population of 650 million, it still has low e-commerce penetration compared to most developed markets as well as China. We first bought MercadoLibre in our International Small Company portfolio in 2013 and graduated the holding to the International All Company in 2020. Currently, about half of MercadoLibre's business is in Brazil and a quarter of it is in Argentina. Long-term investments in the marketplace and its rapid-shipping solutions provide significant barriers to entry for competitors. MercadoLibre ships 50% of its orders with same-day and next-day shipping to nearly 57 million buyers. We also like the potential in the company's newer fintech businesses, where 52 million unique users benefit from MercadoLibre's payment-processing services, credit cards, loans and savings accounts.

In the quarter, MercadoLibre reported 42% year-over-year revenue growth and 9% EBIT growth (both in USD terms). Items sold, the key metric to strip out foreign-exchange and inflation noise, grew 30% year over year, accelerating to the highest level since the second quarter of 2021. In fintech, the company grew monthly active users 37% year over year, while non-performing loan trends remained stable. We believe that MercadoLibre's e-commerce and fintech ecosystem provides a unique competitive advantage. The company accumulates so-called

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first-party (1P) data on transactions from its marketplace. This consumer data informs the company's underwriting, creating a robust funnel for cross-selling its suite of consumer or merchant-facing payment and credit services. This should support sustained market share gains in fintech going forward, in our view.

**MonotaRO** is a Japan-based e-commerce platform for Maintenance, Repair and Operations (MRO) products for small, medium and enterprise customers. MRO covers a wide range of products, from gloves to cutting tools to nuts and bolts. The MRO market in Japan is estimated at 10 trillion yen (approximately \$70 billion USD), with roughly 80% of orders still processed offline, including fax and face-to-face transactions. MonotaRO offers 659,000 SKUs with same-day shipment, out of a total catalog of about 22.9 million. The breadth of the catalog helps meet clients' needs in long-tail items that may not be otherwise available offline. The company also saves time and money for its clients through efficient matching and delivery, and transparent pricing across all channels and customers.

This quarter, MonotaRO announced strong second quarter results with 13% year-over-year sales growth and 20% operating profit growth. This was driven by a combination of nearly 30% growth in the enterprise business segment, where MonotaRO is expanding its wallet share and successfully passing through price increases from inflation. We remain confident about MonotaRO's leading position in the online MRO space and its solid execution.

Among the detractors this quarter were Novo Nordisk and Mobileye Global.

**Novo Nordisk** is a Denmark-based, global pharmaceutical company focused on diabetes and obesity, which comprise 93% of the company's revenue. We have owned the company since 2013 and believe the company typifies an EGC, as it is dominant and innovative, and doing something that is mission-critical in a large and growing global market. Being one of the most significant players in diabetes care gives Novo Nordisk the focus and resources necessary to develop new treatments related to metabolic health. The key to the company's recent growth, however, is the new medicines in the glucagon-like peptide-1 (GLP-1) class of therapies that essentially mimic a hormone that lets the brain know when one has had enough to eat. Novo Nordisk is the global market leader in the GLP-1 segment, with a 55% market share and the blockbuster obesity-care drug Wegovy. Wegovy delays gastric emptying (the time it takes for food to leave the stomach), contributing to a feeling of satiety. GLP-1 drugs are showing promise of promoting overall health. The obesity market alone reached \$24 billion in 2023, according to IQVIA, more than seven times the estimated market size just three years ago. Furthermore, the obesity market is now forecasted to reach \$131 billion by 2028.

Novo Nordisk reported results for the first half of 2024 of 25% sales growth and 19% operating profit growth (at constant foreign exchange rates), including 37% sales growth and 1.5 percentage points of market share gain in obesity care. Management revised its sales outlook to 22% to 28% growth from 19% to 27% previously. Despite these numbers, the results fell short of market expectations, hurting the share price. Of particular concern to investors are supply challenges and net pricing pressures, particularly from Medicaid, which comprises a growing share of Novo's U.S. business, now covering 10 million patients for Wegovy. The September Senate hearing on pricing for Ozempic and Wegovy added to the uncertainty. Additionally, Novo's \$1 billion acquisition in 2023 of Monlunabant, an oral weight-loss drug, released disappointing phase 2a clinical-trial data. Nevertheless, we remain confident in Novo Nordisk's market potential and its continued focus on ensuring supply to help as many patients as possible address the obesity challenge.

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**Mobileye Global** is an Israel-headquartered, global leading provider of advanced driver assisted systems (ADAS) and autonomous-driving technologies and solutions. EyeQ, one of its main product platforms, is a system-on-a-chip that includes perception software for ADAS. Auto manufacturers (original equipment manufacturers, or OEMs) or their primary suppliers (Tier 1 suppliers) connect their systems into Mobileye Global's EyeQ, which provides commonly known ADAS features like automatic emergency braking, pedestrian detection, surround view, parking assistance, driver-drowsiness detection and more. In 2023, Mobileye Global sold around 37 million EyeQ units at an average selling price (ASP) of roughly \$50. This is about a 70% share of the global auto industry's ADAS. Our initial investment thesis for Mobileye was mainly its opportunity in fully autonomous driving vehicles, while the ADAS business provides steadily growing cash flows in the medium term.

Mobileye delivered disappointing results for the June quarter, with a 3% decline in revenue and a 44% drop in adjusted operating income year over year. Management adjusted its 2024 guidance downward, lowering revenue expectations from a previous range of \$1.83 billion to \$2.0 billion to a range of \$1.6 billion to \$1.7 billion, or a 22% decline year over year. We had multiple calls with Mobileye and its main competitor, a private company in China, both before and after the results this quarter, and we concluded that our initial thesis was wrong. The rapid rise of private ADAS competitors in China, who are aggressively cutting prices to boost volume, presents a structural challenge to Mobileye's business in China, which accounted for 31% of its revenue at the end of 2023. Additionally, Mobileye's autonomous driving solution has been losing appeal to EV makers, particularly in China, as the company has been slow in transitioning to a more open system. Given these headwinds to the thesis, we decided to exit our position during the quarter.

### Additions and Deletions

There were no additions this quarter, and one deletion, Mobileye Global, which is discussed above.

### Firm Update

At Brown Capital, we stay focused on our mission of generating exceptional outcomes for investors, while we continue to adapt and evolve. One of the foundational aspects of how we do that is our use of diverse teams, as opposed to individual portfolio managers, to manage money. International Team member **Zoey Zuo** explores this topic in a recently published blog post titled "[Diversity Drives Results](#)." In the third quarter, Brown Capital also announced that Mid Company Team members **Kayode Aje**, **Kwame Webb** and **Ed Zane** joined the International Team, and we terminated the Mid Company strategy in order to focus on growing our international strategies. Finally, Small Company Team member **Andrew Fones** resigned from the firm to take his career in a new direction, marking just the second such departure since the Small Company strategy's inception in 1992.

We appreciate your continued support of Brown Capital Management.

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Company Name	Percentage Held in Portfolio
MercadoLibre Inc	4.20%
NOVO NORDISK A/S	3.46%
REA Group Ltd	3.07%
MonotaRO Co., Ltd.	2.58%
Monday.com LTD	2.42%
Mobileye Global	0.00%

Top 10 holdings may be accessed on Brown Capital Management’s website.

This is not a recommendation to buy or sell a particular security. Holdings are subject to change.

The table below shows the performance of the Fund versus several market indices:

As of 09/30/2024

	Since Inception	Annualized							
		20 Years	15 Years	10 Years	5 Years	3 Years	1 Year	YTD	3 Months
<b>International All Company Fund Inst. Class</b>	<b>4.53%</b>	<b>5.47%</b>	<b>5.93%</b>	<b>5.11%</b>	<b>6.30%</b>	<b>-1.65%</b>	<b>26.26%</b>	<b>6.48%</b>	<b>5.18%</b>
International All Company Fund Inv. Class	4.43%	5.34%	5.75%	4.85%	6.06%	-1.86%	26.15%	6.31%	5.19%
MSCI EAFE	5.33%	6.51%	6.49%	6.22%	8.72%	6.02%	25.38%	13.50%	7.33%
MSCI All Country World Index Ex US	5.62%	6.62%	5.98%	5.72%	8.10%	4.67%	25.96%	14.70%	8.17%
Morningstar Category: US Fund Foreign Large Growth	N/A	N/A	N/A	6.58%	7.70%	0.19%	26.69%	12.94%	6.18%
Excess Return Over Benchmark	-0.80%	-1.04%	-0.56%	-1.11%	-2.42%	-7.67%	0.88%	-7.02%	-2.15%

Excess Return Over Benchmark is the difference between the return of the Strategy and the Index.

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 1.88% 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, 2024. 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](http://www.browncapital.com) or by calling 1-877-892-4226. Please see disclosures.**

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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 its respective benchmark. One may not invest directly into an index.

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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.

**Past performance does not guarantee future results.** Returns are presented net of fees. All investments involve risk, including loss of principal and there is no guarantee that investment objectives will be met. All holdings information is provided for informational purposes only and should not be interpreted as a recommendation to buy or sell any of the securities/sectors represented. Sector exposure represents nontraditional classifications as determined by the Fund's managers. This same objective, non-performance based criteria is consistently used to select portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed herein were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. BCM reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. Diversification does not eliminate the risk of experiencing investment losses.

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**An investor should consider the investment objectives, risks, charges, and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund. A copy of the prospectus is available at [www.browncapital.com](http://www.browncapital.com) or by calling Shareholder Services at 1-877-892-4226. The prospectus should be read carefully before investing.**

**Principal Risks of Investing in the Fund:** As with all mutual funds, an investment in the Fund is subject to investment risks, including the possible loss of the principal amount invested. There can be no assurances that the Fund will be successful in meeting its objectives. Investment in the Fund is also subject to market risk, investment style risk, investment adviser risk, market sector risk, equity securities risk, portfolio turnover risk, small companies risk, and other risks as set forth in the Fund’s prospectus. Funds that emphasize investments in smaller companies generally experience greater price volatility.

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