

# The Brown Capital Management International Equity Fund

## Management Discussion of Fund Performance, Fourth Quarter 2020

---

### International Equity Fund—Investor and Institutional Share Classes

We end 2020 in a changed world. We are battling a global pandemic that has touched nearly every country and has caused almost two million deaths. Countless other lives have been impacted from unemployment, disrupted education and the mental toll from quarantine measures. According to the International Monetary Fund, global GDP will shrink by more than 4% in 2020, a contraction not seen since World War II. The slowdown is squeezing every major economy, with only China and Taiwan as possible exceptions. In developed markets, Spain and the U.K. could see double-digit declines, with Italy and France not too far behind.

Yet the year also ends with hope. Governments have moved swiftly, committing to more than \$12 trillion in global stimulus, more than three times the amount allocated for the 2007-2009 Great Recession. The European Union issued its first large-volume rollout of common bonds to help countries finance crisis-recovery stimulus. Around the world, governments and research organizations have shared research into the coronavirus, which helped treatments from Moderna and Pfizer gain approval by the U.S. Food and Drug Administration in December. We have also seen tremendous fortitude from businesses and individuals as they adjust to new norms.

While 2020 was a year of significant change, our investment process at Brown Capital Management remains the same. We continue to focus on corporate fundamentals and invest in what we believe to be Exceptional Growth Companies. Our long-term investment horizon allows us to invest in a portfolio of companies that should grow significantly larger over a full market cycle, and it allows us to avoid short-term market decisions, such as allocating between growth and value, junk and quality, or developed and emerging markets.

Our focus on the long term positioned us well in 2020, with our companies largely showing high levels of resiliency throughout the pandemic. Many of our companies have emerged with stronger market positions, benefiting from products that are in demand, and from previous investments in their digital infrastructure and supply chains. For example, REA Group operates the dominant real estate listing website in Australia. While REA's revenues have been hurt by COVID-19, the company has fared significantly better than Domain Holdings, its closest competitor. REA has built a digital platform with higher recurring revenues, which has allowed it to operate profitably during this difficult period, while Domain has fallen into losses and is looking to cut 12% of its costs. Similarly, Descartes Systems is a Canadian global logistics company that has invested significantly in its platform. Descartes's revenues are lower than what we had expected at the start of the year, but it has picked up market share from competitors who did not have the capabilities to meet shifts in client demands. Global change has also accelerated the case for certain business models and we have taken advantage of that with new investments in Atlassian, Tecan, Ocado and MercadoLibre since the end of February.

In the fourth quarter of 2020, the indexes that represent international equities rose: the MSCI ACWI ex USA Index increased 17.08%; the MSCI World ex USA Index went up 15.91%; and the MSCI EAFE

# The Brown Capital Management International Equity Fund

## Management Discussion of Fund Performance, Fourth Quarter 2020

---

Index returned 16.09%. The Brown Capital Management International Equity Fund lagged these returns. However, over the full year, our strategy has significantly exceeded the returns of these benchmarks.

### **Returns—Contributors and Detractors**

Each quarter, we highlight a couple contributors and detractors for the period. In the fourth quarter of 2020, M3 and Monotaro were among the top contributors to performance. As a reminder, we invest with a three- to five-year (and longer) investment horizon that allows us to look through short-term market fluctuations, whether positive or negative.

**M3** in Japan helps drug companies' market products to physicians and test new medicines, and assists employers of doctors and pharmacists in finding candidates. M3 has a market share of 80-90% in the area of digitally marketing directly to physicians, a service called online pharmaceutical detailing. With the COVID-19 challenges impairing face-to-face pharmaceutical marketing, demand for M3's medical platform has accelerated revenue and earnings growth over the course of the year. Specifically, M3 saw its September quarter revenue growth accelerate to 28.5% year over year from June's 15.3%. The company's medical platform both in Japan and in overseas markets represented almost 100% of the company's overall growth. Operating margins also expanded to approximately 32% for the quarter and six-month periods, up from the mid-20s for comparable periods from the previous year. Even with the segments that showed revenue declines in the September quarter of 11%-12%, namely the clinical-research-organization support segment (Evidence Solution), and the jobs-matching service (Career Solution), management considers those to be temporary business disruptions related to COVID-19. Importantly, M3 management sees potential annual market growth in the low double digits over the coming five years.

On top of the quarter, M3 was also one of the portfolio's leading contributors for the year. Combining the growth in demand for digital marketing, M3's dominant market share and the company's plans to expand both its product offering and its geographic footprint, we like M3's growth prospects.

**Monotaro**, also based in Japan, sells more than 18 million items that are used in factories and corporations, such as bolts, bulbs and batteries. By offering same-day shipping on most orders, Monotaro empowers its customers to operate with reduced levels of inventory and working capital. Monotaro is particularly attractive given that Japan lags other developed markets in these type of services, known as MRO, or maintenance, repair and operations. We are supportive of Monotaro's investments into infrastructure (it is scheduled to open two new distribution centers in the next 18 months) and its digital platform. The opportunity for Monotaro is large, as about 90% of the industry operates offline though phone and fax orders, and the company only has a 1-2% market share. Over the past 10 years, revenues have compounded at nearly 25% per year. We believe the company will continue to grow revenues at a high rate.

# The Brown Capital Management International Equity Fund

## Management Discussion of Fund Performance, Fourth Quarter 2020

---

Ocado and SAP were among the top detractors.

**Ocado** is a U.K.-based company that has built a profitable, end-to-end solution for selling groceries online. This includes a customer interface (website or mobile app), inventory management, robotic picking and optimized delivery routes. We believe groceries will increasingly be purchased through online portals, and Ocado is well positioned through its partnerships with Kroger (the second-largest grocer in the U.S.), Aeon (the largest grocer in Japan), Morrisons (a top-five grocer in the U.K.), Sobeys (the second-largest grocer in Canada), ICA (the largest grocer in Sweden) and Monoprix in France. Today, consumers shop online for groceries for its convenience. In the future, the scale of Ocado's distribution will allow it to sell groceries at a significantly lower cost than a physical supermarket, at which point the value proposition to consumers significantly increases. The global grocery market is estimated to reach \$11.3 trillion by 2023, but today the online portion is a low single-digit percentage of that, and Ocado has only a small portion of that. Over time, we expect significant penetration of online orders, as well as a significantly greater market share for Ocado.

In the fourth quarter, Ocado's stock price was hurt by a claim of patent infringement by Norwegian company AutoStore. The claim centers around technology used in Ocado's automated storage and retrieval systems. We are watching the news closely, though these types of cases typically take years to resolve.

**SAP**, headquartered in Germany, is one of the largest software companies in the world. It is the global leader in enterprise resource planning (ERP), supply chain management and procurement software. In the quarter, SAP management updated its long-term projections and now expects a faster shift to cloud services, as well as a delay in implementations due to the impact of COVID-19. The news had a negative impact on the stock price. We believe the transition to the cloud is positive for SAP in the long run, as the lifetime revenues and profitability for cloud products are higher, although this is offset by lower recognized revenue in the short term. This dynamic contrasts with SAP's legacy business which typically sells software licenses, providing a large up-front payment but lower recurring fees. Positively, there are benefits of scale in the cloud business, and as SAP grows its client base, we think margins should improve rapidly.

### Purchases/Sales

In the fourth quarter, we purchased **MercadoLibre**, an Argentina-based company that operates the leading e-commerce shopping platform in Latin America, similar to Amazon.com. MercadoLibre is a company well known to Brown Capital as it has been held in our International Small Company Strategy since its inception seven years ago. While we are optimistic on MercadoLibre's outlook, we have liquidated our shares in the International Small Company Fund as we no longer consider it to be a small company. The MercadoLibre platform is growing quickly; it more than doubled the value of items sold in the latest reported quarter versus the prior-year period. Given that e-commerce is only 2.5% of total retail sales in Latin America, MercadoLibre has tremendous room for growth as it trends towards the

# The Brown Capital Management International Equity Fund

## Management Discussion of Fund Performance, Fourth Quarter 2020

---

10%-plus penetration rate seen in the U.S. and Western Europe. We are particularly encouraged by the company's significant investment in distribution as well as its shift into the sales of first-party goods, both of which reduce delivery times for customer orders.

While the high growth in the shopping platform is notable, we believe there is a larger opportunity in the company's payment platform, called Mercado Pago. In the last reported quarter, transaction volumes that were independent of the shopping platform nearly tripled compared to the prior-year period. Mercado Pago offers a strong solution in digital payments and banking services, particularly for micro merchants. MercadoLibre offers a mobile Point of Sale (mPOS) with 2.5 million active units today and sees the market potential at 15 million units. In addition to unit growth, Mercado Pago will also benefit from higher transaction volume on the mPOS systems, as today merchants transact about 500 Brazilian reais per month, while competing mPOS units can generate 3,000 Brazilian reais per month. While the opportunity is large, it is also competitive. We believe Mercado Pago has an advantage as it can leverage the success of the MercadoLibre platform, which is well known in the markets it serves.

We eliminated **Roche Holdings**, a Switzerland-based company that is the largest biotech in the world. While the company is on the cutting edge of drug discovery, particularly in cancer-related treatments, it is facing an uncertain growth path and pressure from generics in its mature drugs. Roche has been a positive contributor to the portfolio since its introduction more than a decade ago, and we now take the opportunity to recycle the capital into higher-growth companies.

### Portfolio Commentary

We invest in a compact collection of what we believe to be 40-70 Exceptional Growth Companies (EGCs). We deem EGCs as companies that possess durable revenue streams, sustainable competitive advantages that can withstand the test of time, and a large market opportunity that offers a long runway for growth. While we have the advantage of taking the long-term view on our investments, our research is continuous, with active research on current holdings and new ideas. At quarter's end, our strategy is fully invested (with cash less than 5%) in 41 companies across 16 countries. Adjustments are made to individual portfolios in adherence to client guidelines.

### Closing Thoughts

As it turns out, the year 2020—which will be long remembered by many people as a terrible one—was actually a banner year for our firm, Brown Capital. We ended the year with \$18.5 billion in assets under management, up from \$13.0 billion in 2019, with capital appreciation comprising the bulk of that growth. Finally, we are pleased to announce that **Amy Perez Jackson**, Managing Director in Sales/Client Service, has been appointed to the firm's Management Committee. Please join us in congratulating Amy for this much-deserved recognition of her leadership.

Thank you for your continued support of Brown Capital Management.

# The Brown Capital Management International Equity Fund

## Management Discussion of Fund Performance, Fourth Quarter 2020

### As of 12/31/2020\*

Company Name	Percentage Held in Portfolio
Ocado Group PLC	4.1
M3 INC	3.9
MonotaRO Co., Ltd.	3.6
REA Group Ltd.	2.5
Tecan Group AG	2.4
The Descartes Systems Group In	2.2
SAP SE	1.8
MercadoLibre Inc	1.7
Atlassian Corp. Plc - Class A	1.4
Roche Holding AG	---
Domain Holdings	—

\*Subject to change.

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

As of 12/31/2020	<u>Annualized</u>						Since
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	Incept.*
<b>International Equity Fund Inv. Class</b>	<b>10.39%</b>	<b>24.49%</b>	<b>24.49%</b>	<b>10.03%</b>	<b>9.04%</b>	<b>7.62%</b>	<b>5.18%</b>
<b>International Equity Fund Inst. Class</b>	<b>10.48%</b>	<b>24.77%</b>	<b>24.77%</b>	<b>10.32%</b>	<b>9.32%</b>	<b>7.80%</b>	<b>5.27%</b>
<i>MSCI EAFE**</i>	<i>16.09%</i>	<i>8.28%</i>	<i>8.28%</i>	<i>4.79%</i>	<i>7.97%</i>	<i>6.00%</i>	<i>5.02%</i>
<i>MSCI AC World ex US***</i>	<i>17.08%</i>	<i>11.13%</i>	<i>11.13%</i>	<i>5.38%</i>	<i>9.44%</i>	<i>5.40%</i>	<i>5.65%</i>
<i>Morningstar Foreign Large Growth Cat.****</i>	<i>14.63%</i>	<i>25.01%</i>	<i>25.01%</i>	<i>11.24%</i>	<i>12.16%</i>	<i>8.06%</i>	<i>N/A</i>

\*Inception 5/28/99. Inception 8/01/14 for the Institutional Share Class. Performance for the Institutional Class prior to 8/01/14 is based on the performance of the Investor Class. Expense Ratio Investor Class - 1.91% Gross and 1.25% Net. Institutional Class - 1.66% Gross and 1.00% Net.

**Performance Calculations Reflect Average Annual Return for periods of one year or more.**

**The performance information quoted above represents past performance, which is not a guarantee of future results. 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. For performance current to the most recent month-end, please call 1-877-892-4226.**

# The Brown Capital Management International Equity Fund

## Management Discussion of Fund Performance, Fourth Quarter 2020

---

**\*\*MSCI EAFE-The MSCI EAFE Index (Europe, Australia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets the excluding U.S. and Canada.**

**\*\*\*MSCI AC World (ex US)-The MSCI All Country World Index excluding the U.S. is a free-float-adjusted Market Capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.**

**\*\*\*\*Morningstar Foreign Large Growth 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.**

*Note: One may not invest directly in the index.*

**An investor should consider the investment objectives, risks, and 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 the link below or by calling Shareholder Services at 1-877-892-4226. The prospectus should be read carefully before investing.**

*Brown Capital Management, LLC (the "Advisor") has entered into an Expense Limitation Agreement with the International Equity Fund under which it has agreed to reduce the amount of the investment advisory fees to be paid to the Advisor by the International Equity Fund and to assume other expenses of the International Equity Fund, if necessary, in an amount that limits the International Equity 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 Equity Fund's business, and amounts, if any, payable under a Rule 12b-1 distribution plan) to not more than 1.00% until July 31, 2021. 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 Equity Fund, the International Equity 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 Equity Fund within three years following the month in which the expense was incurred, provided that the International Equity 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.*

*Principal Risks of Investing in the Fund: As with all mutual funds, an investment in the Fund is subject to investment risks, including, without limitation, market risk, investment style risk, investment advisor risk, market sector risk, equity securities risk, foreign securities risk, emerging markets, securities risk, and other risk as set forth in the Fund's prospectus. Foreign investing involves special risks such as risk of loss from currency fluctuation or political or economic uncertainty.*



# The Brown Capital Management International Equity Fund

## Management Discussion of Fund Performance, Fourth Quarter 2020

---

*More information about these risks and other risks can be found in the Fund's prospectus.*

Distributor: ALPS Distributors, Inc. | Member FINRA/SIPC | 1290 Broadway Suite 1000/Denver, CO 80203  
| There is no affiliation between Brown Capital Management, including its principals and ALPS Distributors, Inc. Call 1-877-892-4226 for a prospectus or additional information. | Visit <https://www.browncapital.com>.