The Brown Capital Management Mid Company Fund

Management Discussion of Fund Performance, Fourth Quarter 2020

Mid Company Fund—Investor and Institutional Share Classes

When the COVID-19 pandemic struck in the first quarter, stocks fell dramatically. However, over the following months, markets rebounded and rose even as the news about the novel coronavirus worsened. Moreover, on Nov. 24, 2020, when Americans faced the prospect of not seeing family members for the Thanksgiving holiday and with a vaccine nowhere in sight, the Dow Jones Industrial Average reached a new high of 30,046. What gives?

The Centers for Disease Control and Prevention now predicts the U.S. will see 400,000 coronavirus deaths by Jan. 20, 2021, the day President Trump leaves office. A staggering 562,000 people in the U.S. may die from the novel coronavirus by March 2021. The numbers only underscore the urgency of current vaccine development and distribution efforts.

Though we will likely see a surge in COVID-19 cases from the holidays, vaccination efforts are well underway and distribution is likely to become more efficient as time passes. We hope the vaccine buys time for the pharmaceutical companies to develop a new vaccine (or, make adjustments to the current vaccines on the market) to combat new mutations to the virus. That said, there are some risks: 1) vaccine distribution could be slow and hit some snags; 2) some people may refuse to take the shots; 3) vaccines could prove less effective than trials suggested; 4) inoculated people could prove able to transmit the virus; 5) a mutation in the virus could boost the transmission rate; 6) people could drop their guard too early. In short, one or more of these issues could cause another market correction.

Adding fuel to the fire, America's economic divide has only grown more pronounced during the pandemic. Alongside the 22 million infected and more than 370,000 killed by COVID-19 in the U.S., there are millions more whose lives have been upended by the economic collapse that has come with it. People once in the middle class are struggling to secure food, shelter and a living wage. On the other side of the divide, wealthier Americans are enjoying rising home prices, and the opportunity to work from home or other more comfortable environments. It is a tale of two Americas—more unequal than perhaps ever before.

There is a growing consensus among the pundits and strategists on Wall Street that the S&P 500 will advance in 2021 due to a stronger economy, robust profit growth, and massive stimulus efforts from governments and central banks. In other words, the market is looking beyond current COVID-19 cases and hospitalizations and expects improvement in the second half of 2021. Likewise, investors seem to expect a relatively smooth vaccine rollout; the Federal Reserve to maintain near-zero interest rates; the economy to open up in the second half of the year; and, a stable market under the incoming Biden administration.

Although we do not make economic forecasts or short-term predictions, it is worth taking a closer look at the factors that historically have played critical roles in the market's direction and what they could mean for market returns in 2021.

The first one is interest rates. The Federal Reserve has said it plans to keep interest rates low at least in the short term. This is good for stocks, especially growth stocks, which tend to be long- duration assets.

The second critical factor is earnings and profit growth of companies. The consensus on Wall Street is that the U.S. economy will grow 5% in 2021, its fastest rate since 1984. This is after a year in which gross domestic product plummeted by 31.4% in the second quarter as the pandemic gripped the country, then soared 33.1% in the third quarter, as the Federal Reserve and the government came to the rescue with multiple spending and lending programs. As for S&P 500 earnings in 2021, the average Wall Street estimate is $168, ahead of 2019's $161 and substantially above 2020's depressed $138. Thus, profits should be strong. The question is, have those appreciated gains from next year been already reflected in today's stock prices? The jury is still out on this question.

The next critical factor is valuation. Valuations are quite high with the Standard & Poor's 500 index selling for nearly 22 times forward earnings, levels not seen since 2000. Nonetheless, given today's low interest rates, the valuation is not excessive, at least until rates start to increase. However, absolute valuations are quite high, which means we may not see any price/earnings multiple expansion.

The last critical factor is inflation. Should the economy pick up and unemployment decline, we could see a rise in inflation. If inflation makes a significant and sustained come back, this could put a lid on the market's rise, as interest rates will likely increase to combat inflation. A rise in inflation could be the most critical factor in the second half of 2021 and 2022. Remember, the market tends to discount 6-12 months out. There are good arguments for both a quick pickup in prices as well as a continued slow rate of price growth in the U.S. and other developed economies.

The bottom line is higher inflation would not be good for the stock market, especially if the Federal Reserve and other central banks respond with higher benchmark interest rates. Companies with lofty valuation multiples are hurt by a higher discount rate. Growth and technology stocks would probably feel the pain of selloffs more so than other industries. The consensus on Wall Street is if inflation comes in the recovery phase, there will be gains for cyclical and value stocks, as well as lower-quality names that are selling at much cheaper valuations than growth and high-quality companies.

Even if inflation does not pick up, the market's leadership could broaden in 2021 to encompass more economically sensitive sectors such as financials, industrials and more cyclical industries. If this scenario plays out, our portfolios could underperform. At Brown Capital, we seek Exceptional Growth Companies (EGCs) using a bottom-up research approach. For many companies, COVID-19 has altered demand patterns, challenged balance sheets and disrupted supply chains. Nevertheless, quality matters, thus we seek agile management teams, franchises with durable demand and well-capitalized balanced sheets. Exceptional Growth Companies often solve important problems, provide mission-critical goods and services, address big, broad market opportunities, and generate a significant amount of recurring revenue which aids them in times like these. But, if the market favors more cyclical companies, it is possible that our portfolios may underperform.

We thought it was important to give you the consensus view of Wall Street and some possible outcomes with certain economic scenarios. That said, at Brown Capital, we do not try to position our portfolios based on the views of market strategists. We prefer the wind at our backs with low interest rates, low inflation, rising profits and reasonable valuations, as opposed to the wind in our faces. This is why we are in constant communication with management teams of our portfolio holdings. The history of Brown Capital demonstrates that one of the best paths to investment success is to identify what we believe to be Exceptional Growth Companies and strive to be patient and tolerant with those businesses as long as their actions are consistent with our investment theses. Identifying what we believe to be EGCs requires deep research and adherence to a team-based decision process that incorporates a myriad of views. This could mean we underperform some quarters or some years, but in the long term, focusing on EGCs with products and services that save time, lives, money and headaches, or provide compelling value to the consumer, should outperform. By their very nature, EGCs are built for long-term growth. EGCs 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. These realities leave us confident that regardless of macroeconomics conditions or exogenous events, EGCs can grow and generate value over a long time.

For the quarter ending Dec. 31, 2020, the Mid Company strategy underperformed the Russell Midcap® Growth Index, which rose 19.02%. However, for the full year 2020, the Mid Company Fund outperformed the Russell Midcap® Growth Index. Our fund advanced more than 42.00% net of fees, while the Russell MidCap® Growth Index rose 35.59%.

Returns—Contributors and Detractors

Among the top contributors this quarter were Align Technology (ALGN) and RealPage (RP).

Align Technology is a leading manufacturer in the $5-billion global orthodontics market with Invisalign, a system of clear aligners designed and manufactured by the company as an alternative to traditional orthodontic brackets and wires. Recently, Align increased its assessments of the addressable market for clear aligners to 15 million existing orthodontic cases globally, plus another 500 million in potential cases based on malocclusion incidence and income levels. This is up from 12 million and 300 million, respectively. It is also worth noting that Invisalign can now treat 90% of orthodontic cases, up from 70-80% previously. Align has steadily expanded its market opportunity by making Invisalign better clinically, and by reducing the friction for adoption for both providers and consumers. Interestingly enough, the pandemic seems to have accelerated the migration away from wires and brackets, and increased consumer interest in aesthetically pleasing alternatives, such as clear aligners. People want to look good on their Zoom calls.

For the past three years, investors have debated whether new entrants would be a net positive or net negative for Align's business. Thus far, the bullish argument for market expansion is outweighing the bearish argument for pricing and margin erosion. It took only one quarter for Align to return to pre-

pandemic volume levels (up 29% in the third quarter). We continue to monitor Align Technology given some of our previous concerns around competition, though recent results are encouraging.

RealPage is a leading provider of software and data analytics to the real estate industry. The company's on-demand software platform addresses the entire lifecycle of rental real estate through four distinct product families: property management, resident services, leasing and marketing, and asset optimization. RealPage provides a technology platform used by owners and managers of rental properties. Tenants may pay their rent or submit a maintenance request using RealPage's software. The company also keeps a database of real-time lease transactions allowing it to forecast where markets are heading. Private-equity firm Thoma Bravo struck a deal to acquire RealPage for $9.6 billion, in one of the largest recent leveraged buyouts. Thoma Bravo is paying $88.75 per share for the company, a 31% premium to RealPage's closing price on Friday, Dec. 18, 2020. The company has until Wednesday, Feb. 3, 2021, to solicit higher competing offers for a break-up fee equivalent to 1% of the transaction value. We are patiently awaiting the outcome of that process while simultaneously reviewing how we will deploy proceeds from the company's sale.

Among the largest detractors for the quarter were Teledoc Health (TDOC) and Dexcom (DXCM).

Teledoc Health operates a telehealth platform that provides on-demand healthcare services to its members in the U.S. and abroad. Its solution connects consumers with physicians and behavioral health professionals who treat a range of conditions. The company offers its services through mobile devices, the internet, and by video or phone. The shares faced some pressure, given zero sequential quarterly membership growth in the third quarter, a quarterly decline in core visits, and an off-target guidance raise from management. The integration of Teledoc and Livongo, a company it recently acquired, will be critical going forward, especially since it seems unlikely we will get any firm guidance from Medicare and Medicaid around reimbursement rates in the near term, which is a critical driver for long-term telehealth wallet share. We still believe in the fundamentals of the business, but we are monitoring increasing competition from traditional providers.

Dexcom has developed and commercialized a leading continuous glucose monitoring (CGM) system for people with diabetes, with the company's share of the nearly $4 billion worldwide CGM market currently standing at more than 35%. Dexcom's shares have lagged partly from market rotation to COVID-19-related underperformers, especially more cyclical names, as well as company-specific issues. Dexcom's CGM's pricing uncertainty, in combination with a new product timeline for G7—a much thinner, less expensive, fully disposable CGM—and competition from Libre (made by Abbott) all could reduce Dexcom's market share. Dexcom has made a concerted effort to provide users broader access to the pharmacy versus durable medical equipment channels across a number of payers. Also, Dexcom established pharmacy pricing terms with some payers that were close to Libre prices in an effort to drive out-of-pocket costs for G6 users to levels not too dissimilar from Libre price points. We believe the price/mix pressure should

lessen over time, while Dexcom still has attractive opportunities in the Type-2 diabetes market for years to come.

Purchases and Sales

We did not purchase any new names in the fund.

Norwegian Cruise Line Holdings was sold in taxable accounts.

Norwegian Cruise Line Holdings (NCLH) is a diversified operator of leading global cruise lines spanning market segments from contemporary to luxury under the Norwegian Cruise Line, Oceanic Cruises and Regent Seven Seas Cruises brands. These brands operate a combined 28 ships. Norwegian was eliminated from the portfolio, as we no longer believe it meets our definition of an Exceptional Growth Company, as discussed in our first quarter letter. There are still many unknowns as to when we will see a fully normalized operating environment with a high degree of confidence.

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.

As of 12/31/2020*

Company Name	Percentage Held in Portfolio
RealPage Inc	4.3
DexCom Inc	3.3
Align Technology Inc.	2.7
Teladoc Health Inc.	0.6
Norwegian Cruise Line Holdings	—

*Subject to Change

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

As of 12/31/2020					Annualized		
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	Since Incept.*
Mid Company Fund Inv. Class	**16.43%**	**40.79%**	**40.79%**	**24.69%**	**18.38%**	**12.12%**	**12.09%**
Mid Company Fund Inst. Class	**16.55%**	**41.16%**	**41.16%**	**25.01%**	**18.69%**	**12.39%**	**12.24%**
*Russell Midcap Growth Index***	*19.02%*	*35.59%*	*35.59%*	*20.50%*	*18.66%*	*15.04%*	*13.69%*
*Morningstar Mid-Cap Growth Cat.****	*20.46%*	*40.91%*	*40.91%*	*21.09%*	*18.47%*	*14.29%*	*N/A*

**The Fund's inception date is 9/30/02. Inception date for the Institutional Share Class is 12/15/11. Performance of the institutional class prior to 12/15/11 is based on the performance of the investor class. Expense Ratio for Investor Class - 1.84% Gross and 1.15% Net. Institutional Class - 1.59% Gross and 0.90% 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 Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values.*

****Morningstar Mid-Cap Growth Category - Some mid-cap growth portfolios invest in stocks of all sizes, thus to a leading mid-cap profile, but others focus on midsize companies. Mid-cap growth portfolios target U.S. firms that are projected to grow faster than other mid-cap stocks, therefore commanding relatively higher prices. The U.S. mid-cap range for market capitalization typically falls between $1 billion-$8 billion and represents 20% of the total capitalization of the U.S. equity markets. Growth is defined based on fast growth (high rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).*

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.

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Brown Capital Management, LLC, (the "Advisor") has entered into an Expense Limitation Agreement with the Mid Company Fund under which it has agreed to reduce the amount of the investment advisory fees to be paid to the Advisor by the Mid Company Fund and to assume other expenses of the Mid Company Fund, if necessary, in an amount that limits the Mid 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 Mid Company Fund's business, and amounts, if any, payable under a Rule 12b-1 distribution plan) to not more than 0.90% 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 expense limit for the Mid Company Fund, the Mid 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 Mid Company Fund within three years following the month in which the expense was incurred, provided that the Mid 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.

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, mid-sized companies and small companies' risk, and other risks as set forth in the Fund's prospectus. Funds that emphasize investments in mid-sized companies generally experience greater price volatility.

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

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