

The Case for International Small Company Investing

Why Brown Capital's proprietary investment approach may be an attractive and timely way to unlock the alpha potential of small companies outside the U.S.

INTRODUCTION

No question about it, international small growth stocks have been significantly outperforming their U.S. counterparts lately. Small international growth stocks, as measured by the MSCI World ex US Small Cap Growth GR index have returned 20.42% year to date through June 30, 2025, while small

U.S. growth stocks, as measured by the Russell 2000® Growth Index, fell 0.48%. That reverses three consecutive years, and seven of the last 10 calendar years, that U.S. small growth stocks outperformed international small growth stocks. We will leave it to other market observers and economists to opine on why that it is, but uncertainty coming out of Washington may be behind the flight to international equities more broadly.

That pivot to international small equities, as well as our long-term track record, has prompted investors

to look at the Brown Capital International Small Company strategy. In this article, we will answer three important questions:

1. Why Invest in the equities of international small companies?
2. Why choose Brown Capital for international small company equity exposure?
3. Why now?



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1. Why invest in the equities of international small companies?

The universe of international small companies is vast and growing. We define small companies to be those that generate less than \$500 million (USD equivalent) in revenue. According to Bloomberg, there are 81,701 total stocks globally as of June 30, 2025. Of those, 2,993 companies meet minimal criteria for liquidity, meet our definition of small, and are headquartered in the 38 countries in which the International Small Company Fund is approved to trade. We define this vast collection of approximately 3,000 stocks as the universe of international small companies.

The international small company universe is heterogeneous. For portfolio managers, the ability to select compelling companies in different geographies with business models uncorrelated with one another is a compelling attribute of the international small equity

asset class. Even within the International Small Company Fund, we see a wide variety of businesses, from an Australian medical-imaging company (**Pro Medicus**) to a French contract manufacturer and marketer of designer fragrances (**Interparfums**) to an Israeli cybersecurity company (**CyberArk Software**).

The international small company universe is attractive. Of course, for portfolio managers, it's not enough for a universe to be large and varied; it must also contain attractive companies to invest in. Chart 1 shows some key characteristics of the international small company universe vs. its U.S. small company equivalent. As you can see, the median company in the international small universe has faster sales growth, higher margins and greater return on invested capital. On the other hand, the international small company universe trades at a premium to its U.S. equivalent and has a slightly less liquid balance sheet.



Chart 1: The international small company universe is relatively attractive on some key characteristics.

	U.S.	International
Sales Growth YoY (median)	8.40%	10.50%
Return on Invested Capital 5-Year (median)	-1.60%	6.90%
Net Debt to Equity (median)	-12.40%	-5.00%
EBIT Margin (median)	-3.40%	14.70%
Forward P/E (harmonic mean)	16.7x	18.85x

Source: Bloomberg

International small companies are less covered by research analysts. Another distinguishing characteristic of international small company equities is the relative lack of research coverage of them, which can create opportunities for research-based active managers. Using the universe defined above, we looked at the number of analysts covering each of the 3,662 passing global companies. According to Bloomberg, on average, U.S. companies in the universe have six analysts covering each company, while international small companies have half that, or just three analysts. 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. In fact, just five years ago, there was an average of four analysts covering each international small company, as opposed to three today.

Investors are often under-allocated to international small company equities. Another attraction to international small company equities may be the growing recognition that investors are under-allocated to international equities in general, and international small equities in particular. While global equity markets are roughly evenly split between U.S. and non-U.S. companies, with non-U.S. markets representing about 40% to 45% of global market capitalization depending on the index, investor portfolios often exhibit a pronounced home-country bias. The underallocation is even more stark in the small company space: international small-cap equities comprise approximately 10% of the global equity market according to MSCI ACWI IMI data, yet most diversified portfolios allocate in the low single digits or omit the segment entirely. Since many investors are falling short of a neu-

tral or market-cap-weighted approach of 10% allocation to international small caps, they are missing the diversification benefits and distinct sources of returns this asset class can offer.

2. Why choose Brown Capital for international small company equity exposure?

In the international small company asset class, manager selection is paramount. The dispersion between international small company managers is quite wide. According to eVestment data, the return spread between top-quartile and bottom-quartile managers in international small cap routinely exceeds 10 percentage points annually—substantially higher than in larger-cap or U.S. equity segments. This variability reflects the inefficiencies inherent in international small company markets, which often lack research coverage and liquidity, creating opportunities for skilled managers to add meaningful alpha. In fact, Morningstar has noted that active managers in this space are more likely to outperform their benchmarks than in many other equity categories. In such an environment, manager selection isn't just important—it's decisive.

Our International Small Company Fund has a proven track record. The Brown Capital International Small Company Fund (Investor shares) has returned 12.01% a year since inception on July 29, 2015, which is 5.58 percentage points a year higher than the MSCI World ex US Small Cap Growth index's return. In addition, at the moment, the Fund has outperformed over 1-year, 3-year and 5-year time periods, as the performance table on page 4 shows.

We are free to search through the universe, unconstrained by the benchmark. Simply put, the international small cap growth indexes do not address the vastness of the international small company universe. Our Fund's benchmark, the MSCI World ex US Small Cap Growth index, comprises 1,194 companies. That pales in comparison to the size of the international small equity universe of approximately 3,000 companies. The bottom line: Investors who restrict themselves to just an index are missing out on most of the international small company equity universe.

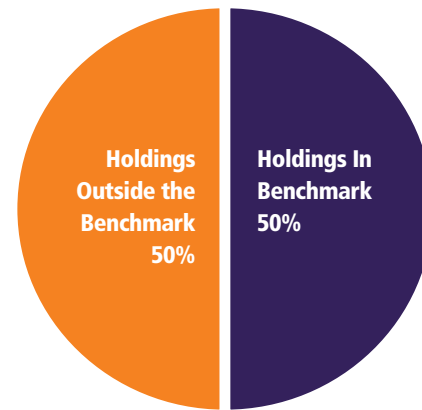
Early identification of Exceptional Growth Companies (EGCs) can be a source of alpha. Our investment approach relies on finding EGCs early enough to potentially generate multiples of our initial investment. Consistent with Brown Capital's U.S. Small Company strategy, we define small companies to be those that generate less than \$500 million (USD equivalent) in revenue. Our EGC approach puts a premium on companies whose revenue is a small percentage of their total addressable markets, leaving them plenty of room to grow. (For more on



our EGC approach, please see the sidebar below.) Israeli cybersecurity company **CyberArk** is an example of the alpha generation potential when we successfully identify EGCs early. At the time of our initial purchase in 2016, Cyber-Ark was a leader in privileged access management (PAM), a rapidly growing but sub-\$1 billion niche market in the \$75-billion cybersecurity industry. While traditional IT security focuses on keeping out bad actors by strengthening network borders with firewalls and gateways, locking down devices, and confirming user identity at sign-in, PAM assumes some intrusions will occur and concentrates on limiting the damage by controlling the most powerful accounts. Since fiscal year 2016, CyberArk has grown revenue from \$216 million to \$1 billion, a 21% average growth rate. Customer count has tripled to 10,000, including 85% of the Fortune 100, up from just 45% in 2016.

As benchmark-agnostic managers, we understand that our portfolio behaves quite differently than the index. Because we search throughout the entire international small company universe, not just the more limited set of companies in the index, we generally own many companies that are outside the benchmark. In fact, Chart 2 shows that 50% of the companies in the International Small Company portfolio are outside the MSCI World ex US Small Cap Growth index, as of June 30, 2025. 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 2: Half of the International Small Company Fund holdings are outside the MSCI World ex US Small Cap Growth benchmark.



Source: Bloomberg

The concentration of our portfolio and the size of our team 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 Small Company and the International All Company portfolios. Each of the portfolios is about 40 companies, but there is roughly 30% overlap by name count between the two strategies, as of June 30, 2025. In total, we hold 69 distinct names between the two portfolios. With six dedicated portfolio managers covering 69 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.

The Brown Capital International Small Company Strategy

Investment Approach

The Brown Capital Management International Small Company strategy seeks to invest in the securities of small Exceptional Growth Companies (EGCs) based outside the U.S. with less than \$500 million (USD equivalent) of revenue at the time of initial purchase. The portfolio's holdings are primarily in developed markets, but include select emerging markets (4% of AUM as of June 30, 2025.)

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 a long-term outperformer compared to its benchmark and peer group. Then in 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 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 Small Company strategy is managed by the six-person International Team, which also manages the International All Company strategy using the EGC approach. 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

The objective of the International Small Company Fund is to generate excess returns over investment periods of five years or more. Thankfully, we have been able to meet that object since the Fund's inception, by and large. As the

table below shows, the Fund (Investor shares) has returned 12.01% annually since inception, vs. 6.43% for the MSCI World Ex US Small Cap Growth Index. Given our concentrated and benchmark-agnostic approach, we understand that there will be short-term periods of underperformance along the way, but we remain enthusiastic about our ability to fulfill our objective going forward.

Quarter End Returns as of 6/30/2025

	Annualized			1 Year	YTD	3 Months
	Since Inception	5 Years	3 Years			
International Small Company Fund	12.01%	8.66%	15.25%	23.04%	13.55%	19.43%
MSCI World ex US Small Cap Growth GR Index	6.43%	7.35%	12.53%	22.49%	20.42%	19.21%
Morningstar Category: US Fund Foreign Small/Mid Growth	N/A	6.58%	11.93%	18.86%	18.78%	18.47%
Excess Return Over Benchmark	5.58%	1.31%	2.72%	0.55%	-6.87%	0.22%

Calendar Year Returns as of 6/30/2025

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
International Small Company Fund	7.30%	2.27%	36.98%	-3.39%	26.41%	44.75%	12.72%	-31.56%	20.04%	8.17%
MSCI World ex US Small Cap Growth GR Index	7.84%	1.12%	34.65%	-17.57%	28.39%	23.22%	9.06%	-26.80%	10.91%	2.86%
Morningstar Category: US Fund Foreign Small/Mid Growth	N/A	-2.97%	35.91%	-18.12%	26.96%	23.62%	9.65%	-30.17%	12.63%	1.39%
Excess Return Over Benchmark	-0.54%	1.15%	2.33%	14.18%	-1.98%	21.53%	3.66%	-4.76%	9.13%	5.31%

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

Source: CFS. *Inception date for the Institutional Share Class is 07/29/2015. Performance of the Institutional Share Class started on 09/30/2015. The Fund's Total Operating Expense Ratio: Investor Class 1.31% and Institutional Class 1.06%.

The performance data quoted represent past performance. 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.



3. Why now?

The fundamentals of the international small company universe have improved. Chart 3 shows five key characteristics of the international small company universe, as of June 30, 2020 (amid the COVID-19 pandemic), and June 30, 2025. Most notably, revenue growth has increased from 4.80% to 10.50% in those five years, while the median forward price/earnings ratio has dropped from 20.88x to 18.85x. We think a more normalized, fundamentally attractive universe bodes well for future potential returns.

Chart 3: The universe fundamentals have improved in the last five years.

Characteristics	International Small Company Universe	
	6/30/2020	6/30/2025
Sales Growth (YoY)	4.80%	10.50%
ROIC (5-year, median)	6.80%	6.90%
Net Debt To Equity (median)	-2.74%	-5.00%
EBIT Margin	14.40%	14.70%
Forward P/E (median)	20.88	18.85x

Source: Bloomberg

The fundamentals of the Brown Capital International Small Company Fund remain compelling. By and large our portfolio companies perform well operationally. Chart 4 shows five characteristics of the International Small Company Fund as of June 30, 2025. While we do not manage the portfolio to specific metrics or benchmark comparisons, in total, our holdings are more profitable, higher margin and financially stronger than the benchmark. We remain confident in the operational results of the portfolio.

The diversification benefits of international small company equities are particularly appealing now. Many investors are seeking diversification from U.S. equities, particularly in the larger-cap segments, which have been dominated by the so-called Magnificent Seven mega-cap technology stocks. International small company equities, by contrast, tend to be more closely tied to local economies and less driven by global macro trends, offering differentiated sources of growth.

Chart 4: The International Small Company Fund's fundamentals remain compelling.

As of 6/30/25	International Small Company Fund	MSCI World Ex-US Small Cap Growth Index
EPS Growth Next 3-5 Years	14.66%	11.14%
Price/Earnings (NTM)	35.8x	23.9x
ROE (Last FY)	26.6%	14.6%
Debt to Capital Ratio	20.70%	26.60%
Operating Margin	23.43%	15.97%

Source: FactSet

That's one reason why historically, international small stocks have lower correlation with U.S. equities, large companies in particular. That diversification may be especially important now.

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—we believe companies across the globe will lead the next waves of digital transformation across industries. Our view is that the real economic value of AI will be realized in its application within each industry, enhancing productivity and decision making. For example, **Sectra** is a Swedish company specializing in medical imaging IT solutions, specifically enterprise PACS (Picture Archiving and Communication Systems). Sectra created an “AI as a Service” marketplace like an App Store where its customers can access validated third-party AI applications even as they build out their own internal capabilities. The company sees AI as a complementary tool to address personnel shortages and improve quality of care within the healthcare industry. For example, in the growing field of digital pathology, AI-based tools can be used for image analysis to improve cell counting for potential cancer diagnoses. We aim to help investors benefit from innovative companies like Sectra in the years to come. 🌈



For More Information

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

Disclosures

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.

Past performance does not guarantee future results. Returns are presented net of investment advisory fees. BCM reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. It should not be assumed that any of the recommendations or characteristics discussed herein will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable. All investments involve risk, including loss of principal and there is no guarantee that investment objectives will be met.

The International Small Company Fund is measured against the **MSCI World ex US Small Cap Growth**. The MSCI World ex US Small Cap Growth Index captures small cap securities exhibiting overall growth style characteristics across the 22 Developed Markets countries excluding the US. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

Morningstar Foreign Small/Mid Growth Category: These funds seek capital appreciation by investing in small- and mid-sized international stocks that are growth-oriented. Small- and mid-cap stocks have market capitalizations less than \$5 billion. Growth is defined based on high price/book and price/ cash flow ratios, relative to the MSCI EAFE Index. These funds typically will have less than 20% of assets invested in U.S. stocks.

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