

# Why Our Investable Universe Is Not the Benchmark

Investors hire us to build Exceptional Growth Company portfolios that look nothing like the index. That benchmark independence starts with our definition of our investable universe.



By Damien Davis,  
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Legendary value investor John Templeton famously said, “It is impossible to produce superior performance unless you do something different.” At Brown Capital, we have a different investment philosophy than Templeton did, but we share the sentiment. We are comfortable standing apart. For decades, we have built Exceptional Growth Company (EGC) portfolios that truly are different from the common benchmarks, and we believe our firm’s long-term track record confirms Sir John’s aphorism.

We understand that clients use benchmarks to measure our performance because indexes offer a near-free alternative to active management. But our portfolios look and behave nothing like the indexes. As portfolio managers, being materially different from the commonly used benchmarks is celebrated by investors when we are outperforming but draws great scrutiny when our returns lag. Unfortunately, all three Brown Capital strategies—International Small Company, International All Company and U.S. Small Company—have trailed their benchmarks over the last three years, in some cases significantly. No question, our EGC approach has been very much out of favor, for a frustratingly long period of time.

As 2025 comes to a close, we think it’s especially important now for investors to remember that we make no portfolio-management decisions based on anything to do with an index. Our “benchmark independence” starts at the very beginning of our investment process, with our definition of our investable universes.



## What We Do vs. What Indexes Represent

Across all three of our strategies, our aim is to create value by owning what we call Exceptional Growth Companies (EGCs) over full market cycles. We do not try to chase the best-performing components of a benchmark, or minimize tracking error to an index through manipulating sector weightings. We believe EGCs offer mission-critical products and services, saving their customers time, lives, money and headaches, or providing exceptional value to consumers. We think EGCs enjoy business models that other companies do not want to compete against, with financial strength and sustainable competitive advantages. Finally, we believe that EGCs possess investment attributes that allow us to hold them for years even decades, including durability of revenue growth, defensibility of market presence, deliverability of growth plan, and profitability to fuel earnings growth.

We seek EGCs wherever we can find them and we build concentrated portfolios—generally with 40 to 65 holdings—from the bottom up. Contrast such portfolios



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with a highly diversified index with a thousand or more stocks, balanced across sectors and industries, and you'll appreciate how differently the two will behave. We think our benchmark independence has been essential to our long-term success. And it starts with the opportunity set of companies we wish to exploit.

### The Brown Capital Investment Universe vs. Benchmarks (as of 9/30/25)

Strategy	Benchmark	No. of Companies in Benchmark	No. of Companies in Brown Capital's Investable Universe	No. of Fund Holdings	% of Portfolio Outside the Benchmark (by weight)
International Small Company Fund	MSCI World ex US Small Cap Growth Index-NR	1,194	~3,000	38	50%
International All Company Fund	MSCI World ex US Growth Index-NR	413	~7,600	43	38%
Small Company Fund	Russell 2000® Growth	1,095	~1,200	40	41%

Sources: Bloomberg, MSCI, Brown Capital analysis.

#### International Small Company Fund

In this strategy, we define our universe as the roughly 3,000 companies meeting liquidity and revenue criteria (less than \$500 million USD) across 38 markets outside the U.S. Contrast that with the MSCI World ex US Small Cap Growth Index, which includes only about 1,200 companies, less than half the opportunity set. By not restricting ourselves to the benchmark, the International Team aims to identify small EGCs early in their growth cycles and hold them as they mature. In total, 50% of the Fund's holdings by weight are outside the benchmark as of Sept. 30, 2025, showing how our search for EGCs extends far beyond traditional definitions.

#### International All Company Strategy

Here, the International Team defines the universe to be the roughly 7,600 investable companies across 38 markets outside the U.S. that also meet minimal criteria for liquidity. This opportunity set spans small, mid-sized and large companies, enabling the team to find growth wherever it emerges. By contrast, the MSCI World ex US Growth index has just 413 companies. The bottom line: Roughly 38% of the Fund's assets are outside the MSCI World ex US Growth benchmark.

#### Small Company Strategy

For this strategy, we generally screen for U.S. companies

#### How We Define Our Own Investable Universes

Ideas for potential new EGCs come from a variety of sources, but screening is a key step in the investment process. Our definitions of our investable universes have nothing to do with the indexes, and indeed a large portion of our holdings fall outside the benchmarks.

with less than \$500 million in revenue at the time of our initial purchase and meeting minimal criteria for liquidity. As of Sept. 30, 2025, we estimate our investable universe to be approximately 1,200 companies. That universe is a touch larger than the Russell 2000® Growth index. Interestingly, only 54% of the Russell 2000® Growth Index meets our revenue definition for purchase. Because we hold EGCs as they grow, many of our holdings "graduate" out of benchmark eligibility—but remain strong EGCs that we believe are worthy of continued ownership. Note that this discipline has been central to our 30-plus-year record of strong long-term results. In total, 41% of our Small Company Fund assets are outside the Russell 2000® Growth index.

#### Why Understanding Our Investment Universe

##### Matters Now

The performance of market indexes helps describe the general market environment, but because our portfolios look nothing like the indexes, it doesn't tell you much about our performance. When we are lagging, it's important to remember that our independence from benchmarks allows us to find opportunity where others aren't looking. That starts with defining our investable universes by our investment process, not by external constructs such as indexes. We think our benchmark independence is a feature, not a flaw, even when our approach is out of favor. 

## For More Information

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

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### Disclosures

**Past performance does not guarantee future results.**

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**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.

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, 2025. 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.

The **MSCI World ex US Growth Index NR** captures large and mid cap securities exhibiting overall growth style characteristics across Developed Markets (DM) countries--excluding the United States. 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. The **MSCI World ex US Small Cap Growth Index NR** 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. The **Russell 2000® Growth Index** measures the performance of the small-cap growth segment of the US equity universe. It includes those Russell 2000® companies with higher price-to-value ratios and higher forecasted growth values. The Russell 2000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect growth characteristics. One may not invest directly into an index.

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