



# The Brown Capital Management Small Company Fund

Management Discussion of Fund Performance  
Second Quarter 2025



## Small Company Fund – Investor and Institutional Share Classes

In the second quarter of 2025, smaller U.S. stocks rebounded nicely after a difficult first quarter. The Russell 2000® Growth index snapped back 11.97% in the second quarter after falling 11.12% in the previous period. For our part, the Small Company Fund (Investor shares) returned 8.59%, lagging the Russell 2000® Growth index in the second quarter. The vast majority of our underperformance occurred in the final few weeks of the period. We think a closer look inside this quarter is instructive to better understand what's affected performance in the quarter and in recent years.

Our Exceptional Growth Company (EGC) approach combines proprietary, bottom-up fundamental research and concentrated positions. We manage a portfolio of EGCs using a benchmark-agnostic approach in which we do not structure the portfolio to match up with index sectors or weightings. Our deep investment research gives us confidence to take large positions that vary significantly from the benchmark. This benchmark-agnosticism has been key to our ability to outperform since our inception more than 30 years ago. As long as we believe the fundamentals remain intact, we remain patient. However, our EGC approach also means that when investor sentiment turns negative on the kinds of high-quality growth companies we invest in, we can look quite foolish. That was certainly the case in the second quarter of 2025.

### A microcosm of a quarter

Coming into the second quarter, equity share prices had been under pressure in part because of concerns about the potential impacts of President Trump's tariffs such as rising inflation and a slowing economy. On April 2, "Liberation Day", President Trump unveiled plans to implement a minimum 10% tariff on virtually all imports into the U.S. from nearly all countries. For some countries, the initial proposed tariff rate was nearly 50%. The Liberation Day announcement triggered a broad market sell-off, with the S&P 500 falling 4.84% on April 3, marking its worst single-day performance since June 2020. A week later, markets rebounded significantly after the announcement of a 90-day suspension of most planned tariffs, not including those imposed on China. In May, markets rose further as the U.S. and China lowered tariffs and agreed to a 90-day truce in what had become an escalating tariff war. Also in May, lower-than-expected inflation data increased hopes that the Federal Reserve might lower interest rates, which further increased investor optimism.

Entering June, our Fund's quarter-to-date performance was roughly in line with the benchmark, having underperformed slightly in April and then outperformed slightly in May. Moreover, fundamental results seemed to be driving share prices, with strong fundamental results being rewarded with share-price rallies and weak results leading to share-price weakness. Then, from June 13 through the end of the quarter our Fund lost over 200 basis points of performance relative to the benchmark. During that period, none of our portfolio holdings reported earnings results or made any significant negative announcements.

### Enter macro

So, what happened in those few closing weeks? In general, it was another example of sudden geopolitical shocks or shifts in the macroeconomic outlook interrupting the normalization of markets. On June 13, Israel initiated airstrikes against Iran which prompted retaliation from Iran. The U.S. was drawn into the conflict, culminating in U.S. airstrikes against Iran's nuclear capabilities on June 21. The stock prices of aerospace and defense-related

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companies in the Russell 2000® Growth index surged amid prospects of a widening conflict. As we do not own any such companies in the Small Company portfolio, this contributed to our underperformance to the index.

Then on June 18 the Federal Reserve Board announced its decision to leave interest rates unchanged, instead of cutting rates as some had expected. This has been a familiar theme in the past couple of years, as Fed uncertainty has driven volatility in the market with each macroeconomic data release and Fed action or inaction potentially causing brief sector rallies or downturns. Speculation about Fed decisions may be particularly high in the current environment as President Trump has voiced his disagreement with the policy decisions of the Federal Reserve Board and has repeatedly called for Fed Chairman Jerome Powell to resign.

In addition, some investors may be more short-term oriented due to the market volatility experienced so far this year, and likely engaged in some profit-taking during this period. Our worst detractors in this short period included a number of portfolio holdings that had experienced significant stock-price increases earlier in the quarter, including **Guidewire Software** (Business Services), **Paycom Software** (Business Services) and **Duolingo** (Consumer Related). Overall, from June 13 to the end of the quarter, our Business Services holdings detracted the most from our relative performance, but again, we saw lagging share prices in the absence of any fundamental changes or news.

### Owning the approach

We understand that it is not uncommon for the performance of the Fund to vary significantly from that of the benchmark in short time periods, as has been the case throughout our history. We know that in certain time periods our portfolio construction relative to the index has helped us, and in other periods it has hurt us. We own that as a consequence of our decision to structure the portfolio in this benchmark-agnostic manner. We also know that not repositioning the portfolio based on short-term market sentiment may exacerbate short-term variability in relative performance. That is also part of our long-term, bottom-up investment approach, and we accept the consequences of that, too.

We invest in EGCs based on our analysis of a company's growth and profitability prospects over the next three to five years. **What we have observed with the Small Company Fund throughout our history is that the strong fundamentals of our portfolio companies and the compounding of their price returns over multi-year periods outweighs the shorter-term macro-driven swings in the market.** The evidence for the previous statement is that our Small Company Fund has delivered returns of 10.40% on an annualized basis over the 33 years since inception of the strategy, outperforming the benchmark return of 7.60% by 280 basis points. The Fund has outperformed in 81% of the rolling 5 -year periods and 96% of the rolling 10-year periods since inception, including our recent period of underperformance over the last few years which is the worst in our history.

For us as fundamental investors, it is heartening to see companies get rewarded for strong operational reports. Our top contributors to performance this quarter, **Datadog** and **Guidewire Software**, both delivered solid results and continue to execute on their growth plans. Both companies were rewarded by the market in terms of stock price appreciation, which should be expected, but that had not necessarily been the case in some recent quarters. On the downside, top detractors **RxSight** and **Bio-Techne** faced fundamental challenges and saw their stock prices get punished during the quarter. These companies are described in further detail below.

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### Returns: Contributors and Detractors

Among the contributors to performance in the second quarter of 2025 were Datadog (DDOG) and Guidewire Software (GWRE).

**Datadog** automates the monitoring of infrastructure, applications, databases, networks, logs and security. As we discussed last quarter, the company underperformed in the first quarter of 2025 despite delivering solid fourth quarter 2024 operating results, with revenue growth of 25% and above-consensus profitability. Last quarter, we noted Datadog's weaker-than-expected 2025 revenue guidance but reasserted our strong belief that the company will sustain its strong growth in 2025 and its solid competitive positioning.

Indeed, Datadog reported strong first quarter 2025 results, growing revenue 25% and raising 2025 revenue growth guidance to 20% at the mid-point. Investors have come to appreciate our view that Datadog will continue to deliver 20%-plus growth in the medium term. Datadog actually lowered its operating margin guidance but investors were on board with its R&D investment, particularly in AI. This quarter, we attended Datadog's annual DASH user conference at which the company showcased impressive AI capabilities in monitoring that have been integrated into its product offerings. We also validated our thesis that Datadog is gaining early traction in its security products. We believe Datadog remains a leader in monitoring and will succeed in driving revenue growth from new products and capabilities for years to come.

**Guidewire Software** provides packaged software running mission-critical processes at property and casualty (P&C) insurance companies. These processes include claims handling, underwriting, policy administration and customer billing. The software often replaces decades-old code running on mainframe computers, thereby reducing costs and improving decision making and agility.

Guidewire's stock price rose during the quarter following its earnings report, as revenue and profitability metrics were better than expected. The results demonstrated continued strong demand for Guidewire's cloud platform, with revenue growing 22% from a year earlier. This growth was driven by existing customers migrating from older on-premise deployments to Guidewire's new cloud platform, as well as a pick-up in large new customers to the platform. As the platform gains scale, Guidewire's profitability is improving. Subscription and support gross margins increased to 71% in the quarter from 66% a year earlier. In addition to its cloud platform, Guidewire's new product innovations including data analytics tools and AI-enabled automation capabilities should drive growth for many years.

Among the detractors to performance in the second quarter of 2025 were Bio-Techne (TECH) and RxSight (RXST).

**Bio-Techne** develops, manufactures and sells life-science instruments and solutions, such as proteins, antibodies and reagents, for cell- and gene-therapy research and clinical diagnostic markets worldwide. Bio-Techne considers itself a life-science supermarket with a broad scale of solutions and tools, including 6,000 complex proteins and 40,000 antibodies. The company is organized into two divisions. The Protein Sciences division, accounting for roughly 76% of revenue, sells proteins, antibodies, immunoassays and protein-analysis solutions. The Diagnostics and Genomics division, 24% of revenue, sells clinical chemistry controls, reagents, molecular diagnostic assays and liquid biopsy kits. Roughly 20% of the company's revenue is generated from instrument sales, while 80% is from consumables, yielding solid recurring revenue in a razor/razor blade business model.

During the second quarter of 2025, Bio-Techne's share price fell after the company reported mixed fiscal third quarter 2025 results, slightly lower-than-expected total revenue growth and lowered next-quarter guidance. The

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Protein Sciences division results were better than expected due to continued improvement in large pharma, up low double digits, while biotech continued to be hampered by a weaker funding environment and macro headwinds. The Diagnostics and Genomics division results were lower than expected due to timing issues with large orders for diagnostic reagents. In both divisions, weakness in capital spending and lower grant funding from National Institutes of Health (NIH) also hurt revenues. Total operating margins were better than expected due to higher volume and solid cost management. The company lowered its next-quarter guidance for revenue growth due to macro uncertainty and tariff headwinds that could impact large pharma. Although Bio-Techne's end markets should improve, enabling the company to generate low teens earnings growth, we are re-evaluating the company's long-term growth profile.

**RxSight** is the first and only commercially available light adjustable lens (LAL) currently on the market for cataract surgery. LAL is a type of premium intraocular lens (IOL) that allows for adjustment of the lenses post-surgery. RxSight enables this by using proprietary photosensitive material in its lenses that changes shape in response to specific patterns of UV light from an RxSight light source. This allows a physician to fine-tune a patient's vision following cataract surgery to achieve optimal results. In addition to providing improved vision to patients, RxSight's premium lenses are also more profitable to the operating physician when compared to traditional monofocal lenses. Adoption of premium IOLs has been growing in recent years, but with only 20% penetration in the U.S. and 11% globally, we think adoption rates could grow significantly over the long term.

On April 3, 2025, RxSight preannounced first quarter revenue of \$37.9 million vs. \$39.1 million consensus, a 3% miss. This is the first time RxSight missed expectations since going public in 2021. RxSight also reduced guidance for fiscal year 2025 from a range of \$185 million to \$197 million (32% to 41% year-over-year growth) to a range of \$160 million to \$175 million (14% to 25% growth). We believe a confluence of weakening macro conditions and competitor product launches led to its miss and guidance reduction. Investors reacted strongly to this negative news, with some fearing that RxSight has saturated the U.S. market. RxSight reaffirmed its 2025 guidance in its first quarter 2025 earnings call, but investors need to see these results delivered in 2025 before rewarding it. We do not believe RxSight has saturated the U.S. market as it currently has just 10% share of the premium IOL market. We think this market share can grow to a range of 30% to 40% longer term, thanks to its superior product, strong patient and physician value proposition, and experienced management team.

### Additions and Deletions

There were no additions to the Small Company Fund in the second quarter of 2025, but there were three deletions—Helios Technologies (HLIO), Enfusion (ENFN) and Vicor (VICR).

**Helios Technologies** designs and manufactures solutions for the hydraulics and electronics markets. Helios's hydraulics business provides screw-in hydraulic cartridge valves and manifolds which are used in diverse markets including material handling, construction equipment, agriculture, specialized vehicles and energy. The company's electronics business provides electronic control, display and instrumentation solutions for recreational and off-highway vehicles, health and wellness products, as well as power-generation equipment. We originally invested in Helios in 2009, based on its product differentiation and speed of innovation that helped drive market share gains in fast-growing markets. Several years ago, the company announced its Vision 2025 growth plan which would expand its electronics and hydraulics businesses through acquisition, and drive further growth into new markets with new products. However, the Vision plan's increase of the company's electronics exposure has had a negative impact on the company's revenue durability and revenue growth. Also, the company has done an ineffective job of executing its growth plan as evidenced by its inability to enter new markets, further negatively impacting its

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growth profile. As a result of these changes in fundamentals, we eliminated Helios from the portfolio during the quarter.

**Enfusion** provides cloud-based software that helps investment management firms across departments and throughout the investment lifecycle. The platform sits on a single database, easing collaboration and communication between portfolio managers, traders, compliance, accounting, operations and investor reporting. The software manages many complex workflows including placing orders, reconciliation, allocating trades, financial reporting and producing investor statements. The platform allows investment managers to develop new investment products, bring them to market faster, and reduce the cost of software ownership. This saves time, money and headaches. On Jan. 13, 2025, **Clearwater Analytics** (CWAN), also a portfolio holding, announced it was acquiring Enfusion for a cash and stock deal valued at \$11.25 per share, which represented a 13% premium to the previous closing price. The deal closed April 21, 2025. Clearwater Analytics provides software solutions with automated functionality for investment accounting and reporting, performance measurement, compliance monitoring and risk analytics. These solutions enable customers to simplify their workflows and meet their reporting and regulatory requirements. The acquisition allows Clearwater to provide front-, middle- and back-office solutions for its customers.

**Vicor** develops products for converting power in electronic systems, including between voltage or current levels, and between alternating current (AC) and direct current (DC). Vicor's products deliver greater power in a smaller sized format with higher conversion efficiency, less magnetic interference and better reliability vs. many alternative products. Vicor's products are used in high-performance computing, industrial equipment and automation, telecommunications and network infrastructure, vehicles and transportation, and aerospace and defense markets. Recently, Vicor has lost business from customers in the high-performance computing area and has subsequently pursued legal action against competitors that it believes have infringed on its patents. As a result, the level of future business from products and licensing royalties is uncertain, and Vicor's legal expenditures have increased significantly. Additionally, the company has had repeated delays in launching its next generation products, which has hindered potential revenue growth. These factors have hurt the company's durability of revenue and profitability. Recognizing that our investment thesis for Vicor, which we have owned since 2022, was no longer intact, we sold the company out of the portfolio.

### Final Thoughts

We are steadfastly committed to our benchmark-agnostic, bottom-up, long-term approach. We remain focused on long-term fundamentals and we continue to upgrade the portfolio, having added several innovative new companies to the portfolio in the past year and removing companies which we no longer deem to be exceptional. We are excited about how our EGCs could prosper coming out of this volatile period. Thank you for your support of Brown Capital.

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Company Name	Percentage Held in Portfolio
Datadog, Inc. Class-A	5.64%
Guidewire Software Inc	5.55%
Paycom Software Inc.	3.68%
Bio-Techne Corp	3.00%
Duolingo	1.21%
RxSight	0.54%
Helios Technologies	0.00%
Enfusion	0.00%
Vicor	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:



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As of 06/30/2025

	Annualized								
	Since Inception	20 Years	15 Years	10 Years	5 Years	3 Years	1 Year	YTD	3 Months
<b>Small Company Fund Inst. Class</b>	<b>10.49%</b>	<b>10.08%</b>	<b>11.04%</b>	<b>6.65%</b>	<b>-2.17%</b>	<b>4.03%</b>	<b>6.35%</b>	<b>-8.72%</b>	<b>8.68%</b>
Small Company Fund Inv. Class	10.40%	9.94%	10.84%	6.44%	-2.36%	3.82%	6.11%	-8.81%	8.59%
Russell 2000® Growth Index	7.60%	8.49%	11.06%	7.14%	7.42%	12.38%	9.73%	-0.48%	11.97%
Morningstar Category: US Fund Small Growth	N/A	N/A	N/A	8.36%	7.94%	10.77%	8.04%	-1.23%	10.48%
Excess Return Over Benchmark	2.89%	1.59%	-0.02%	-0.49%	-9.59%	-8.35%	-3.38%	-8.24%	-3.29%

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 12/15/2011. Performance of the Institutional Share Class prior to 12/15/2011 is based on the performance of the Investor Share Class. Performance of the Investor Share Class started on 12/31/1992.*

*The Fund's Total Operating Expense Ratio: Investor Class 1.31% and Institutional Class 1.11%.*

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

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.

**Morningstar Small Growth Category:** Small-growth portfolios focus on faster-growing companies whose shares are at the lower end of the market-capitalization range. These portfolios tend to favor companies up-and-coming industries or young firms in their early growth stages. Because these businesses are fast-growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap. 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). The volatility (beta) of an account may be greater or less than it's respective benchmark. One may not invest directly into an index.

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**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

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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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