

## The Quarter in Review

International small-cap markets delivered strong returns in the second quarter of 2017, with the MSCI World ex-US Small Cap Growth Index returning 8.16%. The Oberweis International Opportunities Composite returned 8.93% (8.70% net of fees). Year-to-date, the International Opportunities Composite has returned 20.65% (20.11% net of fees) versus 17.31% for the MSCI World ex-US Small Cap Growth Index, for an excess return of 334 basis points (280 basis points net of fees). On a global basis, equities performed well this quarter as economic growth and corporate earnings remained at high levels, more than offsetting political uncertainties in some areas. Equity returns were led by emerging markets such as China and India and some developed markets including France and Germany. International stock returns, in U.S. dollar terms, were also enhanced by a weaker U.S. dollar.

While many investors already appreciate the American economy's improvement, cyclical growth outside the U.S. seems to be catching up. Manufacturing PMI's remained solidly above 50 in Canada, the Eurozone, Australia, Japan, and most emerging markets, signaling continued economic expansion. Additionally, year-over-year headline inflation has gently accelerated, dampening any lingering fears of deflation that dogged many global economies – particularly those in Europe – after the Global Financial Crisis. European firms reported the highest percentage of quarterly revenue surprises over analyst expectations since 2003<sup>1</sup>.

On the other hand some political risks, while still close in mind, are marginally abating. For example, the victory of Emmanuel Macron in the French presidential election has taken some steam out of the populist push. Ironically, European equities sold off in June, as investor focus shifted from fear of an EU breakup to concern that the European Central Bank may soon curtail the “easy money” quantitative easing spigot. Japanese small-cap stocks slightly under-performed the benchmark again this quarter despite all-time high annual earnings and more substantial returns of capital to shareholders through higher dividends and share buybacks (in a market that has historically been reticent to do so).

## Outlook

You may recall our balanced outlook for international small-cap equities in recent quarters. While we were encouraged by improving economic data amid attractive stock valuations, our enthusiasm was tempered by rising political uncertainties after surprising populist election wins in both the U.S. and U.K. With the recent overwhelming victory by Macron in France and a hung parliament in the U.K., populism appears to be losing momentum. Macron and German Chancellor Angela Merkel may have a window of opportunity to stabilize the EU. While Merkel still faces an upcoming election in Germany, her healthy approval rating of 64% suggests a lower risk of upset than was present in the U.K. or U.S. elections. Over time, we believe that a stable environment in the EU should lead to greater business investment and higher consumer confidence, both of which are leading indicators of future economic growth. Some indicators hint this may already be happening, as seen in a six-year high in June's Eurozone PMI.

In Japan, after Prime Minister Shinzo Abe's ruling party lost a recent Tokyo election, the pressure on him to increase economic growth will be high. In response, we expect that Abe will attempt to accelerate reforms and increase government spending. In short, the opportunity in Japan could finally be ripe: many global fund managers are underweight, valuations remain below long-term averages, and we see marginally improving corporate governance as Japanese firms are increasingly electing to return capital to shareholders via dividend increases and share buybacks. Although intrigued, we remain underweight pending more evidence of change impacting growth.

While we are generally positive on opportunities in the EU, we are slightly concerned that increasingly hawkish commentary by global central bankers may create higher volatility going forward. Recently, the Federal Reserve, European Central Bank and Bank of England have all talked about the unwinding of favorable money supply policies, and the potential impact of such a reversal on equity markets is uncertain.

From a sector standpoint, we see the 2016 outperformance from certain commodities unwinding as supply continues to be an issue. After finding more energy ideas in the second half of 2016, we trimmed our exposure during the quarter, reflecting our stance that the oil market likely needs more time to balance supply and demand. We fear energy companies that relied on cost cuts to generate better-than-expected results may soon run out of options in the face of lower oil prices. On the flip side, we have found more industrials ideas which have benefitted from improving global growth and at the same time have largely undertaken corporate restructuring activities.

We are still broadly positive on technology given the current robust growth in the sector and strong future growth opportunities. However, we note some sub-sectors like software seem priced for perfection, and combined with high investor exposure, the sector may be ripe for some profit-taking. We reduced our exposure and enter the third quarter roughly neutral with the benchmark.

In terms of valuation, the portfolio's weighted average P/E and forward growth rates are roughly the same as last quarter. With valuation dispersions across our developed world markets remaining relatively narrow, we continue to expect that company specific factors will remain more important in determining equity winners. Further, compared to the U.S., the P/E ratios of non-U.S. small-cap stocks – both in developed and emerging markets – remain relatively more attractive.

<sup>1</sup> Source: Morgan Stanley.

## Portfolio Highlights

At quarter-end, the portfolio was invested in 99 stocks in 17 countries. Our top five country weightings (portfolio weighting versus the MSCI World ex-US Small Cap Growth Index) at the end of the quarter were the United Kingdom (26.3% vs. 16.2%), Japan (21.0% vs. 27.3%), Switzerland (6.8% vs. 4.4%), Canada (6.2% vs. 8.8%), and Australia (6.1% vs. 5.7%). On a sector basis, the portfolio is overweight consumer discretionary (21.7% vs. 17.4%) and underweight consumer staples (5.0% vs. 9.1%).

## Key Benefits

The International Opportunities strategy seeks to identify and capitalize on the investment opportunities offered by smaller companies in Europe, the UK, Canada, Asia, Japan, and Latin America. The strategy focuses on identifying less well-known small-cap companies which traditionally receive less coverage than larger companies, consequently providing unique opportunities to unearth hidden values.

The potential key benefits of the International Opportunities strategy are:

- Diversified portfolio of smaller, non-U.S. companies with higher than expected earnings potential
- Combines empirically-proven Behavioral Finance principles with the very best of fundamental bottom-up research
- Access to attractive but lesser-known foreign companies that do not receive significant institutional coverage but possess higher than expected growth potential
- Achieve a more effective asset allocation, and greater long-term diversification of their portfolios through investments in non-U.S. equities
- Invests primarily in developed markets with some exposure to emerging markets
- Potential for significant alpha over a full market cycle

**Minimum Account Size: \$5 million for Institutional Account Management**

### COUNTRY ALLOCATION\*

(AS OF JUNE 30, 2017)

	International Opportunities	MSCI World ex-US Small-Cap Growth Index
United Kingdom	26.3%	16.2%
Japan	21.0%	27.3%
Switzerland	6.8%	4.4%
Canada	6.2%	8.8%
Australia	6.1%	5.7%
Sweden	5.0%	6.1%
Germany	4.3%	7.0%
France	4.3%	4.7%
Finland	3.4%	0.7%
China	2.3%	0.0%
Italy	1.2%	2.8%
Hong Kong	0.5%	2.1%
Spain	0.0%	2.7%
Other Countries	6.0%	11.5%
Cash	6.6%	N/A
Total:	100.0%	100.0%

\*Country Allocation is defined using MSCI's Country Classification methodology and represents countries whose allocation in the Strategy or Index is 2% or more. Country allocations representing less than 2% are categorized in "Other Countries". Country Allocation as a Percentage of total Net Assets. Source: Thomson Reuters Eikon

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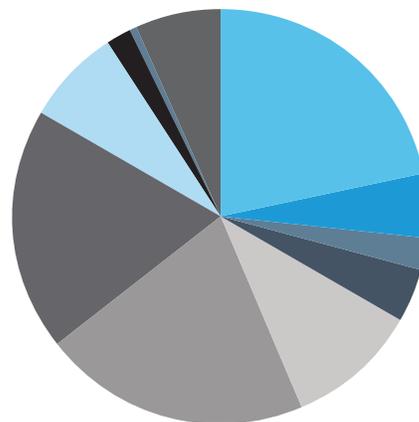
**TOP TEN HOLDINGS (as of June 30, 2017)**

Company		Line of Business
1	Logitech International S.A. 2.7%	Designs, manufactures and markets products that allow people to connect through music, gaming, video, and other digital platforms
2	Swedish Orphan Bivitrum AB 2.4%	Global manufacturer of hemophilia products
3	Bellway PLC 2.0%	Major residential property developer in the United Kingdom
4	Just Eat PLC 1.9%	United Kingdom market leading online takeaway food platform
5	Aristocrat Leisure 1.7%	Develops and manufactures gaming machines such as slot machines and electronic table games
6	ConvaTec Group PLC 1.7%	United Kingdom based manufacturer of medical and surgical equipment with a global sales reach
7	Misumi Group, Inc. 1.7%	Distributes and manufactures parts for factory automation and metal molds
8	Trivago NV 1.6%	Leading global online hotel search provider
9	Berkeley Group Holdings 1.5%	United Kingdom housebuilder that buys and develops land primarily for residential use
10	JD Sports Fashion PLC 1.5%	Leading sports apparel retailing in the United Kingdom

Top 10 holdings as a percentage of Total Net Assets. Portfolio Holdings are subject to change at any time. References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable. Source: Thomson Reuters Eikon

**SECTOR WEIGHTINGS (as of June 30, 2017)**

Consumer Discretionary	21.7%
Consumer Staples	5.0%
Energy	2.5%
Financials	4.2%
Health Care	10.3%
Industrials	20.8%
Information Technology	19.1%
Materials	7.3%
Real Estate	2.1%
Telecomm Service	0.0%
Utilities	0.4%
Cash	6.6%
<b>Total</b>	<b>100.0%</b>



Sector weightings as a % of Total Net Assets.

Source: Thomson Reuters Eikon used unless otherwise noted. Sector data based on MSCI's revised Global Industry Classification Standards. For more details, visit [www.msci.com](http://www.msci.com).

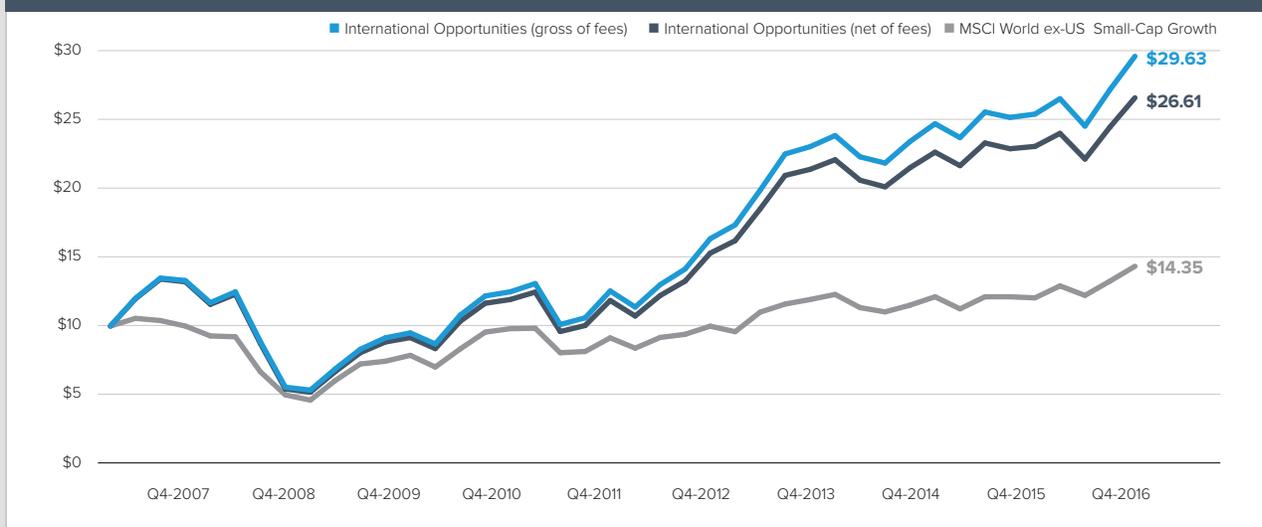
AVERAGE ANNUAL TOTAL RETURNS (as of June 30, 2017)							
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 2/1/2007
<b>International Opportunities (gross of fees)</b>	<b>8.93%</b>	<b>20.65%</b>	<b>16.52%</b>	<b>7.48%</b>	<b>21.08%</b>	<b>9.44%</b>	<b>11.75%</b>
<b>International Opportunities (net of fees)</b>	<b>8.70%</b>	<b>20.11%</b>	<b>15.36%</b>	<b>6.39%</b>	<b>19.93%</b>	<b>8.31%</b>	<b>10.59%</b>
MSCI World ex-US Small-Cap Growth Index	8.16%	17.31%	19.10%	5.28%	11.34%	3.12%	4.04%

Oberweis Asset Management, Inc. ("OAM") is an independent investment management firm that is not affiliated with any parent organization. The composite returns are comprised of all fully discretionary accounts with a minimum value of \$5 million. Performance results from 2-1-07 until 7-31-08, were derived solely from the performance of the Oberweis International Opportunities Fund, a registered, open-end mutual fund, for which OAM serves as investment adviser. Accounts are dollar-weighted within the composite and reported in U.S. dollars.

The MSCI World ex-US Small-Cap Growth Index (Net) is a free float-adjusted market capitalization weighted index that is designed to measure the performance of small cap growth developed markets excluding the U.S. with minimum dividends reinvested net of withholding tax.

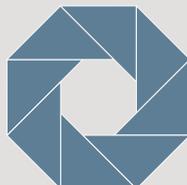
Advisory fees are disclosed in Part II of Form ADV. Performance is historical and includes the reinvestment of dividends and other income. Past performance is not necessarily indicative of future results.

\*Before investing, consider the fund's investment objectives, risks, charges, and expenses. To obtain a copy of the prospectus or summary prospectus containing this and other information, please visit our website at [oberweisfunds.com](http://oberweisfunds.com) or call 800-323-6166. Read it carefully before investing. The Oberweis Funds invest in rapidly growing smaller and medium sized companies which may offer greater return potential. However, these investments often involve greater risks and volatility. There is no guarantee that the portfolios can achieve their objectives. The Oberweis Funds are distributed by Oberweis Securities, Inc. Member: FINRA & SIPC.

**GROWTH OF \$10,000 — WITH INCOME INVESTED (February 1, 2007 – June 30, 2017)**


## The Oberweis Aperture

Our unique, highly disciplined investment approach includes a series of eight criteria to focus our research efforts.


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## Oberweis Asset Management, Inc.

Recognized as a leading small-cap stock specialist, Oberweis has been helping institutional investors manage their assets prudently and effectively for many years.

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