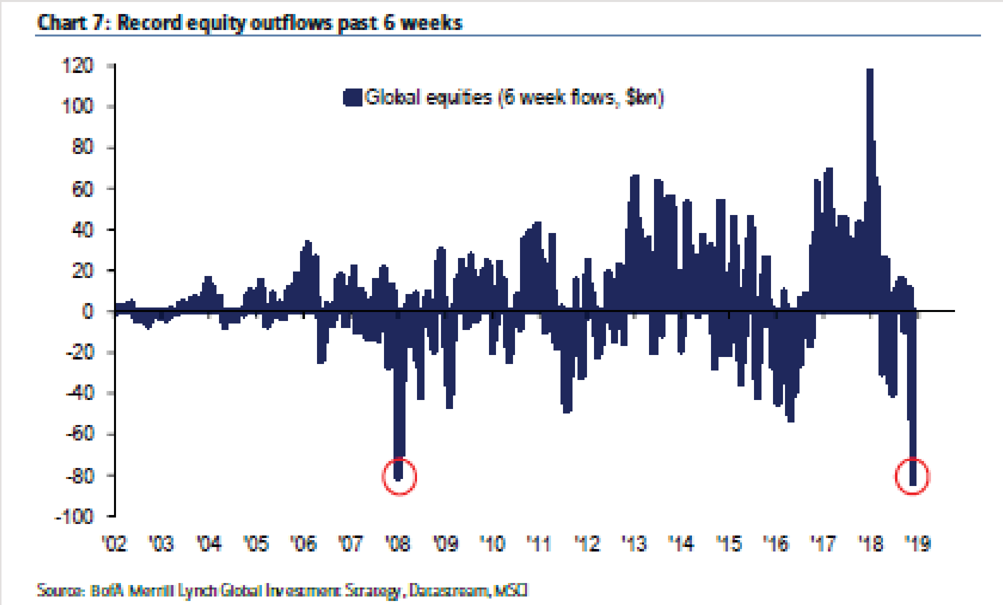
# INTERNATIONAL OPPORTUNITIES STRATEGY

4Q 2018

## The Quarter & Year in Review

2018 was a difficult year for investors. Stocks, bonds, gold and oil all declined as investors grew increasingly fearful of the impact of tariffs and a prolonged US-China trade war, resulting slowing growth, rising interest rates, and tighter monetary policy. In fact, investors were so concerned that they reduced equity exposure late in 2018 at the most frantic pace since the end of 2008, right around the stock market bottom.




As one might expect, this type of environment can be challenging for us in the short-term, as we invest in small-cap companies with valuations based primarily on misunderstood future earnings. Over the long-term, our process has worked exceptionally well. Since we began 12 years ago, we have significantly exceeded the return of the benchmark (the MSCI World ex-US Small Cap Growth Index) by an average of 631 basis points per year (517 basis points net of fees), for a cumulative return of 188.8% (154.82% net of fees) versus 42.2% for the benchmark. However, as is the case for even the best investors, there are market environments that can lead to underperformance in the short-term.

When the market focuses too much on near-term earnings rather than long-term earnings, our strategy faces short-term headwinds. We expect these difficult periods to occur occasionally, but fortunately, they are the exception rather than the rule. As fear spread during the fourth quarter, valuations within our asset class contracted. The average P/E of our benchmark index dropped from 20.0x at the end of 2017 to 16.1x at the end of 2018. During times of fear and volatility, it is not unusual for the market to over-discount risk for international small cap growth stocks. These broadly lower valuations have allowed us to buy companies with higher average growth rates without having to pay higher P/E ratios. In our experience, out-of-favor periods for our process often lead to attractive valuations, which can set the stage for unusually favorable purchase opportunities, potentially yielding above-average returns once the headwinds subside.

These are the moments that truly excite us. They are rare. There have been only two other times during the life of the strategy that we have been this excited about the investment opportunity of our portfolio. In Q1 2009, following the sub-prime mortgage crisis, when fear dominated market sentiment and investors dumped equities at a similar pace to today, we pointed to "extremely attractive valuations and cash flow yields" in the portfolio. We were also excited in Q4 2011, when most investors were panicking about the European debt crisis and we noted "attractive valuations and cash flow yields" and "The biggest risk to 2012 on the upside, however, is to be too defensively positioned and to miss out on a market - which is currently trading at a considerable discount to historical valuations - that returns back to more normal valuation levels. As challenging as difficult economic periods are, they often turned out to be attractive times to buy international small-cap stocks." Both times did indeed represent spectacular buying opportunities. As challenging as uncertain situations can feel, they often turned out to be attractive times to buy equities.

For the year, the Oberweis International Opportunities Composite returned -23.03% (-23.98% net of fees) versus -17.78% for the MSCI World ex-US Small Cap Growth Index. In the fourth quarter, the Composite returned -21.82% (-22.17% net of fees) versus -17.49% for the benchmark. Japan was our worst contributing country to performance, where data from SMBC Nikko shows that companies with negative earnings revisions outperformed those with positive revisions. This is the antithesis of our strategy, which seeks companies reporting positive earnings surprises which we believe are materially misunderstood and undervalued on future earnings. As a result, our holdings should naturally experience positive revisions, and over the long-term our experience shows that such securities will outperform the market. In the short-term, however, this may not always be the case. In these instances, so long as our holdings continue to report good earnings in accordance with our philosophy, we will continue to hold them. As we have cited in the past, when our style moves against us in the short-term without a large change in company fundamentals, inherent value gets built into the portfolio and it has historically been only a matter of when, not if, that value gets recognized.

Additionally, after commenting consistently last year about being cautious on economically sensitive companies given the uncertainty over tariffs and a trade war, we found and owned instead more companies exposed to secular themes. These stocks can be cheap and undervalued on future earnings, but may look more expensive on current-year earnings. During environments like 2018, when the market becomes overly focused on near-term earnings, many of these companies sold off as the market gave less weight to future earnings. Ultimately we believe these companies will earn far more than what the market is expecting, therefore making valuations attractive. We believe the current environment is similar to what we witnessed in Q1 2009 and Q4 2011, periods that were followed by substantial absolute and relative performance for our strategy.

## Outlook

Periods of high risk aversion often correlate to below-average stock valuations (as is the case currently), and we see an above-average investment opportunity today. Our commentaries from Q1 2009 and Q4 2011 reflected a similar level of above-average optimism, which was an out-of-consensus opinion at the time. In the long run, many of the best times to buy equities have been after significant declines when investors are fearful and valuations are cheap. According to data supplied by Empirical Research Partners, our universe of developed world ex-US small-cap equities trade at the cheapest valuations since January 2012 and about 30% below the long-term average.

As mentioned, some of our underperformance in 2018 was due to the market's increased focused on short-term earnings over long-term earnings. As a result, many of our companies declined substantially despite continued strong fundamentals and we had an interesting development take place: Over the life of the strategy, we typically have an average of eight companies annually in our top 10 detractors that hampered performance due to disappointing earnings. In 2018, none of our 10 largest detractors disappointed with earnings and, in fact, all 10 remain in the portfolio given our expectations for above-consensus earnings power going forward. We believe this creates a coiled spring for value to be recognized in the portfolio at some point in the future as better-than-expected earnings materialize.

From a macro perspective, while we hope that some sort of positive trade resolution takes place between the U.S. and China, we are not holding our breath. We also expect challenges from slowing growth in China, a more tepid housing market in the U.S., balance sheet reductions by major central banks and various political uncertainties globally to weigh on markets from time to time in 2019. However, we see many of these risks as discounted and therefore see an opportunity for long-term investors to take advantage of a favorable entry point.

Finally, our team remains as committed to our strategy as ever. As significant shareholders in the strategy personally, we feel the short-term pain of difficult periods too. However, we are always focused on the long-term. The recent contraction in valuations has created as compelling an opportunity as we have seen in the last eight years.

# INTERNATIONAL OPPORTUNITIES

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## Portfolio Highlights

At quarter-end, the portfolio was invested in 82 stocks in 16 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 Japan (18.2% vs. 28.7%), the United Kingdom (16.4% vs. 16.6%), Australia (11.2% vs. 6.7%), Canada (10.7% vs. 8.7%), and Sweden (7.1% vs. 5.3%). On a sector basis, the portfolio is overweight information technology (24.8% vs. 13.8%) and underweight consumer discretionary (9.2% vs. 14.5%).

**COUNTRY ALLOCATION***
*(As of December 31, 2018)*

| | International Opportunities | MSCI World ex-US Small-Cap Growth Index |
|---|---|---|
| Japan | 18.2% | 28.7% |
| United Kingdom | 16.4% | 16.6% |
| Australia | 11.2% | 6.7% |
| Canada | 10.7% | 8.7% |
| Sweden | 7.1% | 5.3% |
| China | 6.4% | 0.0% |
| Germany | 5.9% | 5.3% |
| France | 4.8% | 2.8% |
| Netherlands | 4.6% | 2.2% |
| Denmark | 3.2% | 2..5% |
| Israel | 3.0% | 1.5% |
| Norway | 2.1% | 1.6% |
| Switzerland | 1.5% | 3.9% |
| Italy | 0.0% | 3.1% |
| Spain | 0.0% | 2.5% |
| Other Countries | 2.2% | 8.6% |
| Cash | 2.7% | 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

## 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**

**For more information please contact:**
**Brian K. Lee**
**Oberweis Asset Management, Inc.**
**3333 Warrenville Rd., Suite 500, Lisle, IL 60532**
**(800) 323-6166 | (630) 577-2321 | brian.lee@oberweis.net**

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# INTERNATIONAL OPPORTUNITIES

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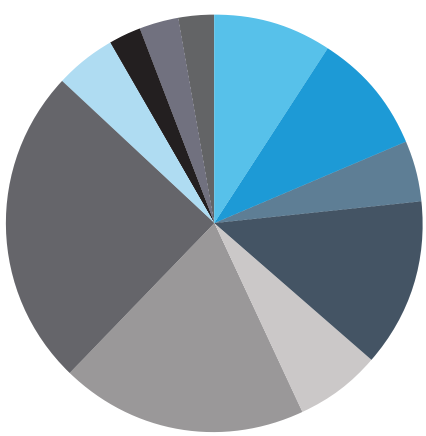
## TOP TEN HOLDINGS *(as of December 31, 2018)*

| | Company | | Line of Business |
|---|---|---|---|
| 1 | Burford Capital Ltd. | 4.1% | Market leader in providing litigation finance, investing its own balance sheet and 3rd party funds |
| 2 | Evolution Mining | 3.2% | Australian gold miner |
| 3 | Teleperformance | 3.1% | International provider of outsourced call centers and customer management services |
| 4 | Intermediate Capital Group | 2.6% | Private equity company investing in international debt products based in the United Kingdom |
| 5 | ASR Nederland | 2.5% | Dutch based and focused insurance company; both life and non-life products |
| 6 | Parkland Fuel Corp. | 2.3% | Leading convenient store and sholesale fuel provider in Canada |
| 7 | Fancl Corp. | 2.2% | Leading global provider of cosmetics and supplements |
| 8 | Systena Corp. | 2.2% | Japan-based IT system integrator and imbedded software developer |
| 9 | Afteroay Touch Group Ltd. | 2.0% | Australian-based payments company |
| 10 | Evolution Gaming Group | 2.0% | Leading provider of live online casino games |

*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 December 31, 2018)*

| | |
|---|---|
| Consumer Discretionary | 9.2% |
| Consumer Staples | 9.5% |
| Energy | 4.8% |
| Financials | 12.9% |
| Health Care | 6.8% |
| Industrials | 19.1% |
| Information Technology | 24.8% |
| Materials | 4.7% |
| Real Estate | 2.6% |
| Communication Services | 2.9% |
| Utilities | 0.0% |
| Cash | 2.7% |
| **Total** | 100.0% |



*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.*

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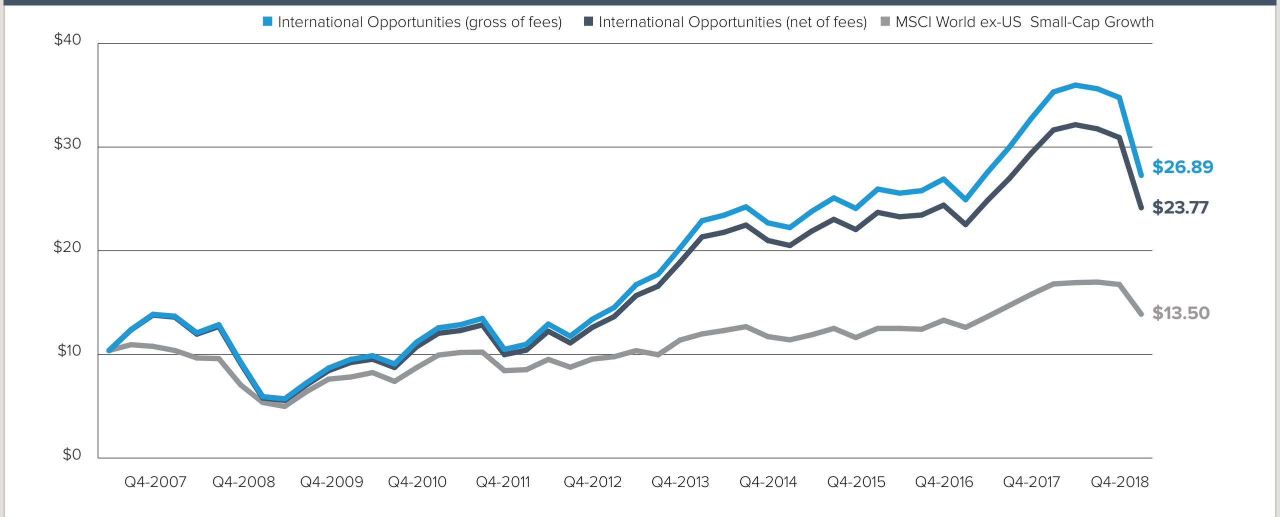
| AVERAGE ANNUAL TOTAL RETURNS *(as of December 31, 2018)* | QTD | 1 Yr | 3 Yr | 5 Yr | 10 Yr | Since Inception 2/1/2007 |
|---|---|---|---|---|---|---|
| **International Opportunities (gross of fees)** | **-21.82%** | **-23.03%** | **1.70%** | **3.61%** | **17.09%** | **9.31%** |
| **International Opportunities (net of fees)** | **-22.17%** | **-23.98%** | **0.64%** | **2.55%** | **15.93%** | **8.17%** |
| MSCI World ex-US Small-Cap Growth Index | -17.49% | -17.78% | 3.65% | 3.10% | 10.46% | 3.00% |

*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.*

**GROWTH OF $10 MILLION — WITH INCOME INVESTED** ***(February 1, 2007 – December 31, 2018)***




## 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.

MEET THE TEAM