Oberweis
Asset Management

EMERGING MARKETS MARKET COMMENTARY

2Q 2021

The Quarter in Review

The Oberweis Emerging Markets strategy gained 11.41% (11.14% net of fees) during the second quarter of 2021. The MSCI Emerging Markets Small-Cap Index (the benchmark) climbed 11.25% during the period. Year to date, the strategy has gained 17.00% (16.38% net of fees), while the benchmark is up 19.78%. We focus on generating attractive absolute returns for our shareholders. We believe that if we do that job well, our shareholders will also see attractive relative returns over the long term. Since the strategy's June 2018 inception, that has been the case, with the portfolio enjoying an annualized return on 18.88% (17.59% net of fees) versus the benchmark's 9.52% annualized return. Over shorter periods of time, however, we may see strong absolute returns that do not keep up with the benchmark, which was the case during the first half of 2021.

The MSCI Emerging Markets Small Cap Index's returns were also strong relative to other major indices. During the second quarter, the benchmark beat the large-cap MSCI Emerging Markets Index by more than 600 basis points, the global all-cap MSCI All Country World Index by nearly 400 basis points, and the S&P 500 by almost 300 basis points. The vast bulk of the Emerging Markets Small Cap benchmark's outperformance relative to those other indices came after the 25th of May. If only for the sake of variety, we wish we could say it was something other than utterances from the U.S. Federal Reserve that drove the market. Alas, the song remains the same. We do believe the market's sharp move higher was in response to signals from the Fed. On the 24th and 25th of May, a chorus of Federal Reserve Governors announced that they believe inflation expectations are "well anchored," the current spike in consumer prices is "transitory," and that it is still too early for the Fed to even think about scaling back bond purchases. In other words, don't expect higher rates or reduced liquidity any time soon.

Emerging markets are generally more sensitive to changes in the availability and cost of U.S. dollars than developed markets. Many emerging markets countries and companies issue dollar-denominated debt. All purchase dollar-denominated commodities and other raw materials. As a result, the prospect of an extended period of more and cheaper dollars is welcome, and a boon to local economies and equity markets. As they are typically more focused on domestic markets, smaller companies in developing countries are more sensitive to changes in the US dollar than their larger compatriots. We saw that dynamic at work during the second quarter.

While the overall benchmark did well across the whole quarter and especially since the end of May, there was some turmoil below the surface. COVID-19 continued to move around the world, popping up in one country or another. As local infections in one country climbed, the local equity market fell. As the rate of new infections decelerated in another country, the equity market rallied. The net result was fairly steady performance on the benchmark level, masking a lot of steep ups and downs in individual countries. India, for example, entered the second quarter with growing rates of new coronavirus infections. The MSCI India Small Cap Index trailed the benchmark by roughly 500 basis points for the first few weeks of the quarter. As the rate of growth in new infections slowed in mid-April, the Indian equity market turned sharply and outperformed the benchmark by more than 700 basis points through the end of June. Taiwanese equity markets saw a similar dynamic, falling sharply in late April as COVID-19 cases grew exponentially, then roaring back as cases showed signs of peaking. As the quarter ended, it was Indonesia's turn, with cases there rising rapidly and its equity market declining. We expect it to turn sharply higher as cases slow, as happened elsewhere.

We saw the pattern over and over again during the quarter and we expect to see it again going forward until vaccination levels rise globally. The silver lining for investors is that COVID-19 seems to have morphed from a global phenomenon to a local one. By running a globally diversified portfolio, we have been able to absorb COVID-19 shocks in a particular country as other countries remain healthy or see rates of infection start to slow.

Turning to the portfolio and starting with country-level attribution, issue selection added 121 basis points to performance and country allocation subtracted 133 basis points. The biggest contributors to performance were China, which added 86 basis points, and Cyprus, which added 82 basis points. We have one position, the Russian online bank TCS Group, that is legally domiciled in Cyprus. India and South Korea were the two biggest detractors from relative performance, trimming 168 basis points and 81 basis points, respectively, from our relative returns. Looking at the attribution on a sector basis, issue selection added 159 basis points to relative performance and sector allocation trimmed 171 basis points. Financials and Information Technology, the largest contributors to performance, added 124 basis points and 114 basis points, respectively. On the other side of the ledger, Industrials reduced relative performance by 175 basis points and Communication Services by 56 basis points.

AVERAGE ANNUAL TOTAL RETURNS ***(as of June 30, 2021)***

	QTD	YTD	1 YR	3 YR	Since Inception 6/1/2018
Emerging Markets (gross of fees)	**11.41%**	**17.00%**	**54.70%**	**20.93%**	**18.88%**
Emerging Markets (net of fees)	**11.14%**	**16.38%**	**53.42%**	**19.63%**	**17.59%**
MSCI Emerging Markets Small-Cap Index	11.25%	19.78%	63.75%	12.31%	9.52%

Past performance is not necessarily indicative of future results. Performance is historical and includes the reinvestment of dividends and other income. Unusually high returns may not be sustainable. The strategy invests in rapidly growing smaller and medium-sized companies that may offer greater return potential. However, these investments often involve greater risks and volatility. Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations. Advisory fees are disclosed in Part II of Form ADV.

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 6-1-18 to present, are derived solely from the performance of the Oberweis Emerging Markets 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 Emerging Markets Small Cap Index is a free float-adjusted, market capitalization-weighted index that measures the performance of small-cap stocks in 24 emerging markets.

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Outlook

We remain excited about the investment potential in emerging markets. We believe the drive of people who live in the developing world to live better, healthier and more productive lives is inexorable. Moreover, we continue to believe that drive will fuel structural growth in spending on consumer goods and healthcare, as well as investments in infrastructure and automation. Our strategy to invest in prudently managed and competitively advantaged companies that are positioned to benefit from that long-term structural growth remains unchanged.

We also continue to believe that emerging markets equities are attractively valued. According to data compiled by Bloomberg, the MSCI Emerging Markets Small Cap Index traded at a forward price-to-earnings multiple of 15 times at the end of the first quarter, which is cheaper than the 15.5 times average forward earnings that the Index has traded at since the end of 2008. Emerging markets small cap equities also look attractive relative to the rest of the world. Bloomberg also reports that the MSCI All Country World Index (ACWI) trades at a much richer 19.6 times forward multiple. Given the comparatively attractive long-term growth opportunities we see for smaller companies in developing markets, we think the lower valuation multiple is attractive.

Portfolio Highlights

At quarter-end, the portfolio was invested in 64 stocks domiciled in 24 countries. Our top five country weightings (portfolio versus the MSCI Emerging Markets Small-Cap Index) were China (16.3% vs. 10.5%), South Korea (12.8% vs. 18.8%), Taiwan (14.6% vs. 23.0%), India (9.9% vs. 18.4%), and Brazil (8.2% vs. 7.3%). The strategy's largest overweight sectors were Information Technology (27.5% vs. 19.6%), Consumer Discretionary (15.1% vs. 12.0%), and Consumer Staples (9.0% vs. 6.0%). The largest underweight sectors were Materials (2.7% vs. 11.7%), Industrials (10.1% vs. 15.4%), and Real Estate (1.0% vs. 6.3%).

Organization Update

There was no change to the team during the quarter.

Oberweis Asset Management's Investment Phillosophy

We believe that investing in smaller companies driving revenue and earnings growth in excess of expectations results in superior investment performance over long periods of time. We believe that innovation is the key to economic growth and wealth creation and are committed to investing in companies at the forefront of innovation – smaller company stocks that offer the potential for extraordinary revenue and earnings growth.

The entrepreneurial spirit is alive and well at these companies. Many are nimble and uniquely address the needs of their customers with patented new products and services. Successful investing, however, demands more than finding companies with good growth prospects. We must also buy these stocks for our clients at prices that make sense. By paying careful attention to companies' valuations in relation to expected earnings growth rates, we seek to purchase stocks when they still have considerable appreciation potential.

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