Oberweis Asset Management

INTERNATIONAL OPPORTUNITIES MARKET COMMENTARY

2Q 2021

The Quarter in Review

During the June quarter, the International Opportunities Strategy returned +7.43% (7.21% net of fees) vs. +5.23% for the benchmark, the MSCI World Ex USA Small Cap Growth Index. Since the first quarter the world was hit with Covid, as measured since 12/31/2019, the markets have experienced periods favorable to both growth and value. The strategy vastly outperformed during that overall period and returned +76.89% (74.75% net of fees) vs. +31.98% for the benchmark. Most importantly, over the long-term and since inception on February 1st, 2007, the strategy has returned a very strong cumulative +538.62% (451.81% net of fees) vs. +140.22% for the benchmark.

Global equities continued higher in the quarter as key economic data led to a reassessment of the post-pandemic business cycle and trajectory of monetary policy in the US. US consumer prices increased by 5% year over year in May, the fastest pace since August 2008 and in excess of Wall Street expectations. The Federal Reserve responded at its June 15-16 meeting with a shift to a more hawkish rhetoric. Importantly, it also appears that the recent increase in inflation is being included in the Central Bank's long-term inflation target. Investors interpreted this to suggest that the Fed has now adopted the role of inflation fighter, and will not permit the economy to run too hot. Consequently, the Fed Fund Futures curve to June 2023 increased by 20 basis points. With the multiplier effect on growth rates from a one basis point change in short-term rates estimated at 3x to 3.5x, this implies a reduction in 2023 GDP forecast of approximately 65 basis points. In addition, the marked improvement in unemployment data that was seen in Q1, as represented by a sharp decline in unemployment claims, did not repeat in Q2. In summary therefore, over the quarter the rate of improvement in the labor market flattened out while underlying inflation accelerated and the Fed assumed a more hawkish position.

Our view on inflation remains consistent with our recent quarterly letters. We do not consider a sustained inflation shock to be the most probable outcome, in large part due to the disinflationary impact of technology. At the same time, given the higher than usual number of unknowns, at present we are agnostic on the near-term outlook for both inflation and economic growth. The pandemic was accompanied by an extraordinary fiscal policy response, the consequences of which are likely to extend well beyond this year. With employment data often variable, perceptions of the labor market are notoriously changeable. It would therefore not be a huge surprise if the market's reaction to this quarter's Fed meeting and economic data turned out to be too pessimistic. As a result, we have concluded that currently the most appropriate construction of the portfolio is one of balance.

Irrespective of what happens with inflation and interest rates, however, over any meaningful time periods for long-term investors, share prices will be substantially determined by the fundamental performance of companies, which is our expertise and main focus. As we have written in recent quarterly letters, many companies have seen their competitive positions significantly strengthened over the last twelve months. One such example is a company that provides student placement services to enroll in universities, as well as English language tests to international students. Prior to the onset of the pandemic, this business was investing heavily in digitizing its service and cost base, and providing universities around the world with highly differentiated data analytics on student cohorts and trends. Then Covid happened, international borders closed and many students were unable to be placed into colleges outside of their home countries. Unsurprisingly, demand decreased. However, the company managed to maintain profitability while smaller competitors were materially weakened. Its relative position strengthened considerably, and the structural drivers for global students seeking English-language higher education remain in place. As borders reopen, we anticipate strong renewed student demand as well as an increased reliance of universities for this company's industry-leading services.

We continue to see the very best long-term, compounding opportunities in structurally-growing businesses which operate in growing nascent markets where adoption is in its early stages. This includes companies whose growth prospects have been further accelerated by the pandemic. For example, in our Q1 2020 letter we described strong optimism for a global meal-kit delivery provider that we foresaw "will see both a near-term and long-term business boost from a change in our lifestyle." This was at a time when the broad investor consensus opinion was still distinctly bearish, as many people expected the economy to collapse. We, on the other hand, early on had the out-of-consensus opinion that some names "may even benefit from the virus and our new way of life." A year later, that company's business has performed so well, in fact, that its market capitalization has expanded well beyond this strategy's normal target capitalization range. The company has "graduated" into our International Select strategy (the International Select strategy is a concentrated, high-conviction, high alpha strategy that generally owns between 20-35 positions and invests in companies that have market capitalizations greater than US$5 billion. It identifies companies whose future fundamentals, earnings power and cash flow generation are not yet correctly understood by the market, and as a result, their securities can be significantly undervalued), and is presently a top holding in that strategy. Its business continues to do very well and we still see the potential for massive additional compounding upside. In conclusion, we foresee long-term performance being driven mainly by a focus on companies with this type of idiosyncratic, structural growth profile -- much more so than seeking to "play" the temporary re-opening cycle or short-term factor swings.

AVERAGE ANNUAL TOTAL RETURNS ***(as of June 30, 2021)***							
	QTD	**YTD**	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**	**Since Inception 2/1/2007**
International Opportunities (gross of fees)	**7.43%**	**7.14%**	**57.38%**	**19.04%**	**18.52%**	**16.34%**	**13.72%**
International Opportunities (net of fees)	**7.21%**	**6.66%**	**56.18%**	**17.94%**	**17.42%**	**15.23%**	**12.58%**
MSCI World ex-US Small-Cap Growth Index	5.23%	7.36%	39.41%	11.20%	13.62%	8.77%	6.27%

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 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.

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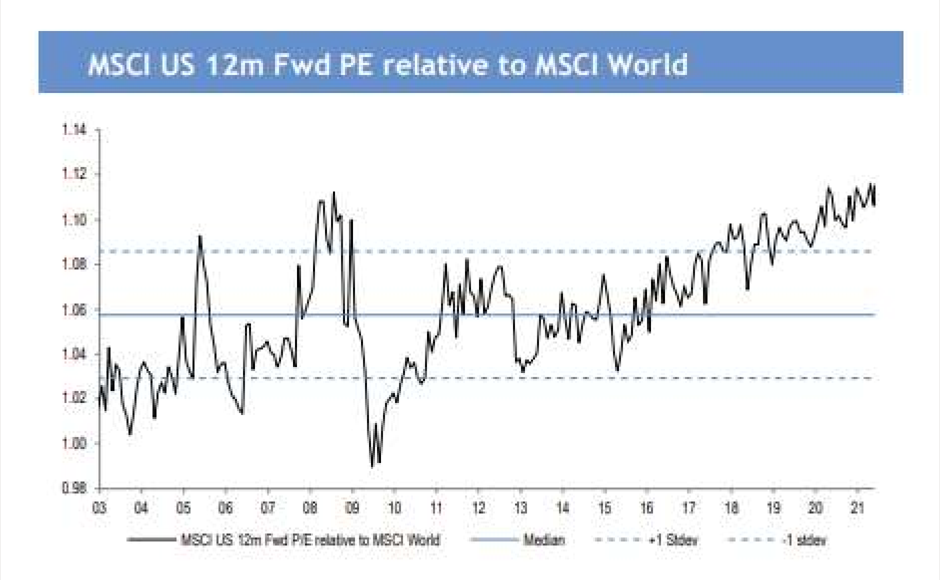
Outlook

Our outlook remains consistent with recent quarters. We are positive on our long-term opportunity set as we are confident that changes in business and consumption are still being underestimated, driven by trends that we foresaw long ago.

As the computing power of semiconductors doubles every 18 to 24 months for the same price, we expect a 60-fold increase in computing power in about 10 years compared to today. Set against this central notion, our view is that betting on going backwards to the past "normal" and against these mega trends is to bet on low probability outcomes. As such trends in communication, computation, machine learning, robotics, energy generation and storage compound over time, they will likely have an enormous impact. We are interested in companies that will benefit from, and even drive, structural change to a much greater degree than is generally understood, thus leading to outperformance. The long-term success of these companies will not mainly be determined by short-term sector rotations, interest rates, inflation and GDP. Instead it will be a function of whether business models, and management teams' execution thereof, can take advantage of the opportunities from these deep underlying changes taking place in the world. Interestingly, most pundits on TV and many investors focus on the former, debating and trying to predict short-term back-and-forth sector rotations and changes in interest rates over the next few months instead of focusing on companies' fundamentals, earnings and cash flow (and therefore ultimately companies' NPVs) over the next 10-20 years. As mentioned, the latter is our core focus and expertise.

From a geographical perspective, international valuations look cheaper than US valuations and continue to represent an opportunity for investors. The chart below from JP Morgan shows that the US forward twelve-month P/E valuations, relative to the rest of the developed world, are close to a 25-year high.



Portfolio Highlights

At quarter-end, the portfolio was invested in 61 stocks in 13 countries. Our top five country weightings (portfolio weighting versus the MSCI World Ex USA Small Cap Growth Index) at the end of the quarter were Japan (29.5% vs. 25.6%), the United Kingdom (21.1% vs. 15.9%), Canada (8.8% vs. 8.2%), Sweden (8.8% vs. 9.5%), and Germany (7.7% vs. 5.3%). On a sector basis, the portfolio was overweight consumer discretionary (24.0% vs. 14.5%) and underweight consumer staples (1.7% vs. 6.9%).

Organization Update

There are no changes to the International Opportunities team or strategy.

Oberweis Asset Management's Investment Philosophy

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.

For more information please contact:
Brian K. Lee, Director of Marketing & Client Service
(800) 323-6166 | (630) 577-2321 |
brian.lee@oberweis.net

Marc Carlson, Director Marketing & Client Service
(800) 323-6166 | (630) 577-2364 |
marc.carlson@oberweis.net

Oberweis Asset Management, Inc.
3333 Warrenville Rd., Suite 500, Lisle, IL 60532