

OBERWEIS INTERNATIONAL OPPORTUNITIES FUND (OBIOX) MARKET COMMENTARY

3Q 2021

The Quarter in Review

During the third quarter, the International Opportunities Fund returned -0.60% vs. +1.31% for the benchmark, the MSCI World Ex USA Small Cap Growth Index. For the year to September 30th, the Fund returned +5.52% vs. +8.77% for the benchmark. Over the long-term - since inception on February 1st, 2007 - the Fund has returned a very strong cumulative +379.78% vs. +143.38% for the benchmark.

Global equities were roughly flat for the quarter as investors continued to calibrate expectations for the post-pandemic recovery, inflation and interest rates. Short-term style swings remained heavily influenced by trends in Coronavirus cases. After the Delta variant took hold in the US over the summer, the Covid case count began to roll over as vaccination rates moved higher. The potential for resultant robust economic activity is clear. The pandemic gave rise to a significant build-up in savings for consumers in developed markets with, for example, US consumer savings more than \$2 trillion above trend, equating to approximately 16% of a year of consumer spending. It is likely that a significant percentage of these savings will feed their way into consumption over the next 12-24 months.

While much of the focus on the inflation data has been on whether price increases are of a temporary nature, the Underlying Inflation Gauge, which seeks to capture primary trends in prices, has moved up in recent weeks. Notably, median wage growth in the US has reverted to its pre-Covid level and tightness in the labor market is evident with more than one job opening for each unemployed person. Furthermore, market expectations for Fed tightening, which had been pulled forward after the Fed's June meeting, were then almost immediately reversed as the Delta case load soared in the summer. Real rates, measured relative to ten-year inflation expectations, are still approximately 70 basis points below their average for the 2010's. Should the Fed's approach to monetary policy remain asymmetric, which is to say more responsive to data that is negative rather than positive, then that could in theory produce stronger growth and higher inflation over time.

In the last quarterly letter, we commented that we were agnostic on the near-term outlook for both inflation and economic growth given the higher than usual number of unknowns coming out of the pandemic. This still remains the case. Our longer-term view on inflation remains consistent with our recent quarterly letters. We do not consider a true long-term, sustained inflation shock to be the most probable outcome, in large part due to the disinflationary impact of technology and globalization. However, we are aware that the conditions are present for both economic activity and inflation to be elevated over the near-term. As a result, we continue to hold the view that currently the most appropriate construction of the portfolio is one of balance. We would highlight two areas with elevated risk in the current environment: i) fixed income, with the wider fixed income asset class likely to fare poorly in a rising rate environment as well as likely to significantly lose real purchasing power in an inflationary environment, and ii) businesses highly exposed to labor and/or energy input cost inflation.

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 past year and a half. One such example is a company whose software enables developers and designers to easily code any kind of computer screen. Its products are used to build embedded digital display user interfaces across a multitude of products and verticals, from small inexpensive devices to car infotainment systems. Revenues are generated from software licenses as well as royalties on sales of products that were designed using its software. The company's software makes coding in C++ very easy (C++ coding language has high functionality but is infamously difficult to use) and importantly lets its customers keep all of their products' data to themselves. On a short-term basis, Covid has impacted the company negatively as supply chain issues have hurt the sales volumes of its customers, thus impacting its royalty revenue stream. However, the company's value proposition, together with strong structural trends – digitization of hardware, strong growth in the number of connected devices vs. a relatively fixed supply of developers (meaning growing demand by developers for productivity enhancing tools) – has seen it build out its customer-base far more successfully than initial expectations. This has been achieved despite a difficult sales environment due to Covid. We therefore see considerable medium-term upside to consensus expectations as royalty revenues, which come at almost zero marginal cost, compound over time from its now substantially larger customer-base.

We continue to see the very best long-term, compounding opportunities in this kind of structurally-growing business operating in nascent markets where adoption is in its early stages. We therefore focus on companies with this type of idiosyncratic, structural growth profile rather than seeking to make factor "bets" in response to our interpretation of short-term macro swings.

AVERAGE ANNUAL TOTAL RETURNS (as of September 30, 2021)

	QTD	YTD	1 Yr	3 Yr	5 Yr	10 YR	Since Inception 2/1/2007	Gross/Net Expense Ratio*
Oberweis International Opportunities Fund (OBIOX)	-0.60%	5.52%	30.08%	17.75%	15.51%	17.58%	11.29%	1.87%/1.60%
MSCI World ex-US Small-Cap Growth Index	1.31%	8.77%	25.09%	12.20%	12.34%	11.12%	6.25%	

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so that you may have gain or loss when shares are sold. Current performance may be higher or lower than quoted. Unusually high returns may not be sustainable. Visit us online at oberweisfunds.com for most recent month end performance.

The Oberweis Funds invest 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. There is no guarantee that the Funds can achieve their objectives.

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 or call 800-323-6166. Read it carefully before investing.

**Audited data as of December 31, 2020. Oberweis Asset Management, Inc. (OAM), the Fund's investment advisor is contractually obligated through April 30, 2022 to reduce its management fees or reimburse OBIOX to the extent that total ordinary operating expenses exceed in any one year 1.60% expressed as a percentage of the Fund's average daily net assets.*

The Oberweis Funds are distributed by Oberweis Securities, Inc. Member: FINRA & SIPC.

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 US, with minimum dividends reinvested net of withholding tax.

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.

A foundational premise of this view is our consideration that Moore's Law is still alive and well, as espoused at the recent ASML investor day. Semiconductors are consequently set to see multiples-upon-multiples increases in computing power over the next 10 to 20 years compared to today. What is relevant to us as investors is the phenomenal technological advances and innovations across industries that rely upon such progress. Covid simply accelerated many such developments that had already been set in motion. Supply chains will change, demand will grow for new products and services, and fall away for ones that are obsolescent. We are interested in companies that will benefit from, and even drive, such structural changes to a much greater degree than is generally understood, thus leading to outperformance.

The long-term success of these companies will not primarily be determined by short-term style rotations, fluctuations in interest rates and inflation, and marginal variations in GDP growth. 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.

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 20-year high.



Fund Highlights

At quarter-end, the Fund was invested in 61 stocks in 14 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 (26.8% vs. 26.7%), the United Kingdom (26.8% vs. 15.7%), Canada (9.8% vs. 7.9%), Netherlands (6.8% vs. 2.3%), and Germany (5.2% vs. 5.1%). On a sector basis, the Fund was overweight consumer discretionary (22.9% vs. 14.0%) and underweight real estate (0.0% vs. 5.4%).

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.

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