

The Quarter and Year in Review

The Oberweis Emerging Markets strategy declined 8.93% (-9.24% net of fees) during the first quarter of 2022. The MSCI Emerging Markets Small-Cap Index, which serves as our benchmark, fell 4.33%. We are never happy with negative absolute or relative returns, even over short time periods like one quarter. We remain, however, relentlessly focused on the long-term potential of the businesses in which we invest. Over time, strong company fundamentals—sales growth, profit margins, cash flows and valuation—drive equity returns, and we think our longer-term track record demonstrates that. Since the strategy’s June 2018 inception, the strategy has enjoyed an annualized return of 11.65% (10.42% net of fees), outperforming the benchmark’s 6.12% annualized return. During some time periods, however, macroeconomic and geopolitical developments overwhelm company fundamentals and drive equity-market returns. We think the first quarter of 2022 qualifies as one of those periods.

There was no shortage of dramatic headlines during the first three months of the year. Russia’s invasion of Ukraine certainly counts as one of them, drawing the world’s attention and dominating the news cycle for weeks. And yet, it’s hard to pick out the start of the conflict on a graph of the MSCI Emerging Markets Small Cap Index’s performance over the quarter. The index fell immediately after war broke out, but there were several other drops of similar size during the quarter and the index ended the quarter roughly where it was when on the eve of war.

As historically and geopolitically important as Russia’s invasion of Ukraine undoubtedly is, we do not believe it was the main driver of equity-market volatility during the quarter. We think the conflict, and the sanctions that followed, exacerbated previously existing trends in energy and commodity prices. The extra boost those prices received from the war perhaps made the Federal Reserve’s decision tougher as it simultaneously added fuel to the inflation fire and poured cold water on economic growth forecasts. However, the Fed ultimately looked past the Ukraine situation and held to its pre-war guidance for several rate hikes in 2022. We think that was far more economically consequential than the Russian sanctions. Indeed, the MSCI Emerging Markets Index’s big moves up and down during the quarter more often happened around news from the Federal Reserve or interviews with Fed officials than with developments with Ukraine and Russia.

The story could change dramatically in coming quarters as the situation in Ukraine evolves. For now, however, we continue to believe that global central banks’ fight against inflation matters most. We have no strong view on how they will navigate the fight against inflation, or even if they will need to fight inflation a year from now. We do have a strong view on the value that growing, well-managed companies with strong balance sheets and durable competitive advantages can create for shareholders over time and across economic and interest rate cycles. We focus on finding those bottom-up opportunities and try not to be distracted by top-down volatility, which is when stock prices tend to diverge most significantly from underlying business value, generating exceptional opportunities for patient investors.

Turning to the portfolio and starting with country-level attribution, issue selection subtracted 384 basis points from performance and country allocation subtracted 86 basis points. The biggest contributors to performance were India, which added 104 basis points, and Indonesia, which added 47 basis points. China and Taiwan were the two biggest detractors from relative performance, trimming 331 basis points and 131 basis points, respectively, from our relative returns. Looking at the attribution on a sector basis, issue selection subtracted 381 basis points from relative performance and sector allocation subtracted 88 basis points. Energy and Communication Services, the largest contributors to performance, added 56 basis points and 22 basis points, respectively. Conversely, Health Care reduced relative performance by 150 basis points and Industrials by 146 basis points.

AVERAGE ANNUAL TOTAL RETURNS (as of March 31, 2022)

	QTD	1 YR	3 YR	Since Inception 6/1/2018
Emerging Markets (gross of fees)	-8.93%	-0.28%	17.79%	11.65%
Emerging Markets (net of fees)	-9.24%	-1.41%	16.60%	10.42%
MSCI Emerging Markets Small-Cap Index	-4.33%	5.52%	11.93%	6.12%

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.

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 is 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 12.3 times at the end of the first quarter, which is lower than the 13.7 times average forward earnings that the Index has traded at over the past ten years. Emerging markets small cap equities look attractive relative to the rest of the world. Bloomberg reports that the globe-spanning MSCI All Country World Index (ACWI) trades at a much richer 17 times forward multiple, which is also slightly higher than the 16.3 times average forward multiple it has traded at over the past decade. 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 66 stocks domiciled in 22 countries. Our top five country weightings (portfolio versus the MSCI Emerging Markets Small-Cap Index) were China (17.0% vs. 7.8%), Taiwan (14.1% vs. 21.8%), South Korea (10.8% vs. 15.4%), India (10.4% vs. 21.2%), and Indonesia (8.2% vs. 2.0%). The strategy's largest overweight sectors were Consumer Discretionary (25.0 vs. 11.5%), Information Technology (26.6% vs. 18.2%), and Energy (7.2% vs. 2.2%). The largest underweight sectors were Materials (2.6% vs. 13.1%), Financials (4.0% vs. 11.3%), and Industrials (8.9% vs. 15.6%).

Organization Update

There was no change to the team during the quarter.

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