Oberweis Asset Management

EMERGING MARKETS MARKET COMMENTARY

2Q 2022

The Quarter in Review

The Oberweis Emerging Markets strategy declined 14.6% (15% net of fees) during the second quarter of 2022, outperforming the MSCI Emerging Markets Small-Cap Index, which serves as our benchmark, by 180 basis points (141 basis points net of fees). As always, we remain focused on generating attractive long-term absolute returns. We believe that if we do that well, attractive relative returns will naturally follow. Since the strategy's June 2018 inception, that has been the case, with the portfolio's 30.28% (24.27% net of fees) cumulative return substantially beating the benchmark's 5.0% cumulative return.

With strong absolute returns as our goal, the quarter was clearly disappointing and the fact that we did a bit better job protecting shareholders' capital during the period than the benchmark offers cold comfort. We understand, but take little solace from, the fact that there were many political and economic forces operating against equity returns during the period, making it particularly hard to produce positive absolute portfolio returns. The economically disruptive war in Ukraine, Covid lockdowns in China and persistent supply shortages plaguing a range of industries could each, on their own, potentially squeeze equity returns. Combined, they were a stiff headwind for equity markets globally. More importantly, each one was a lit torch of potential inflation in the form of supply disruptions tossed onto an enormous pile of bone-dry kindling in the form of both loose monetary policy and generous fiscal stimuli that fueled demand. The result was inflation at generational highs. As central bankers arrived on the scene to fight the inflationary fire they helped fan into existence, the market started building rising interest rates into earnings forecasts and valuation multiples. It was, to put it mildly, a tough environment for equities in both the developed and the developing world.

Yes, it's rough out there. Yet, we are excited. Perhaps counterintuitively, our focus on generating attractive long-term absolute returns means that we thrive in these environments. Macroeconomic and political turmoil take their toll on near-term stock prices. What matters to investors in the long run, however, is the earnings power of businesses, which is a function of the firm's sales growth, margins, cash flows and the incremental return on capital reinvested in the business. We look for businesses with strong earnings power supported by a durable balance sheet and protected by robust competitive advantages. The ability of those types of firms to create shareholder value is not permanently impaired by economic cycles, though they often trade as if that is the case. Broadly speaking, we think that is the environment we are in now. As a result, we are finding what we believe to be tremendous values in small-cap emerging markets. Historically, buying great companies at cheap prices has resulted in strong absolute returns down the road.

Turning to the portfolio, country allocation added 318 basis points while issue selection subtracted 218 basis points from performance. The biggest contributors to performance were China, which added 288 basis points, and Indonesia, which added 116 basis points. Brazil and Taiwan were the two biggest detractors from relative performance, trimming 113 basis points and 82 basis points, respectively, from our relative returns. Looking at the attribution on a sector basis, issue selection subtracted 61 basis points from relative performance and sector allocation added 161 basis points. Consumer Staples and Energy, the largest contributors to performance, added 168 basis points and 69 basis points, respectively. Conversely, Information Technology reduced relative performance by 79 basis points and Industrials by 60 basis points.

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.

AVERAGE ANNUAL TOTAL RETURNS *(as of June 30, 2022*

	QTD	YTD	1 YR	3 YR	Since Inception 6/1/2018
Emerging Markets (gross of fees)	**-14.61%**	**-22.24%**	**-23.57%**	**11.55%**	**6.69%**
Emerging Markets (net of fees)	**-15.00%**	**-22.86%**	**-24.60%**	**10.35%**	**5.47%**
MSCI Emerging Markets Small-Cap Index	-16.41%	-20.03%	-20.72%	5.78%	1.19%

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 (continued)

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 11.3 times at the end of the second quarter, which is lower than the 13.8 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 14.4 times forward multiple while the S&P 500 trades at 16.6 times. 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 67 stocks domiciled in 22 countries. Our top five country weightings (portfolio versus the MSCI Emerging Markets Small-Cap Index) were China (25.9% vs. 9.9%), Taiwan (12.4% vs. 20.9%), Indonesia (9.4% vs. 2.6%), India (8.3% vs. 21.2%), and South Korea (6.3% vs. 14.3%). The strategy's largest overweight sectors were Information Technology (25.1% vs. 17.4%), Consumer Discretionary (23.5% vs. 11.8%), and Energy (7.5% vs. 2.5%). The largest underweight sectors were Materials (2.4% vs. 13.1%), Financials (0.9% vs. 10.5%), and Real Estate (0.6% vs. 6.9%).

Organization Update

Subsequent to the end of the quarter, we made a change to the Emerging Markets team. We welcomed Priya Radhakrishnan, CFA to the team as an Analyst.

Priya previously worked for SBA Communications Corp. as a Principal Finance Analyst-International Business Development, where she led financial modeling on mobile communications tower transactions in Asia, Africa and Latin America. Prior to that, Priya worked as a Senior Strategy Analyst for Office Depot & Office Max. Priya started her career as a Research Associate with JP Morgan Asset Management in Mumbai, India. She is a holder of the Chartered Financial Analyst (CFA) designation. Priya earned a MS in Economics & Master of Management Studies from Birla Institute of Technology and Science, India.

Patrick B. Joyce, our Chief Financial Officer and Chief Compliance Officer, has announced his retirement effective December 31, 2022. Pat has been an invaluable leader and mentor to many in this organization throughout his 28 years of loyal and distinguished service. He will be greatly missed, although we know Pat is excitedly looking forward to spending more time with his three young grandchildren. We wish him all the best.

With Pat's guidance and input, we have been planning for his eventual retirement for some time and have been grooming his internal successors. Beginning next year, Pat's role will be split in two. Eric Hannemann will be promoted to Chief Financial Officer. Eric joined OAM in 2004 and is currently Vice President of Accounting, reporting to Pat. Eric earned an MBA from the University of Chicago and a BA from Michigan State University. Tom Joyce will be promoted to Chief Compliance Officer. Tom joined OAM in 2010 and is currently Vice President of Compliance, reporting to Pat. Tom earned a BS from Northern Illinois University. We are confident that both Eric and Tom have the experience and education to seamlessly assume these responsibilities at OAM.

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.

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