Oberweis Asset Management

INTERNATIONAL SELECT MARKET COMMENTARY

2Q 2022

The Quarter in Review

During the June quarter, the International Select Strategy returned -11.28% (-11.31% net of fees) vs. -9.28% for the benchmark, the MSCI EAFE Index. For the year to June 30th, the strategy returned -37.62% (-37.77% net of fees) vs. -19.57% for the benchmark. While periodic short-term performance fluctuations are normal, thanks to overall strong performance, the strategy has generated both high positive absolute returns as well as high positive outperformance since inception on September 30th, 2019, returning a strong cumulative +52.76% (+51.88% net of fees) versus only +4.36% for the benchmark.

Concerns over inflation, and more specifically whether central banks can bring the rate of inflation down without incurring a significant economic slowdown, continued to impact global equities over the quarter. Core sticky-price CPI, a key measure of inflation for the FOMC, continued to increase over the quarter, rising to 7.5% on an annualized basis in May, following a 7.1% increase in April. It now stands at its highest level in 30 years. The issues which we have highlighted in recent quarterly letters remain central to the current investment environment with supply-side limitations placing upward pressure on prices. In particular, the labor market is still historically tight while supply chain cost pressures have yet to diminish in a meaningful manner. Of course, the war in Ukraine has also been a supply shock, with expectations for Russian oil production in 2023 downgraded by almost 2.5 million barrels per day. This potential missing supply approximates to current expectations for worldwide consumption growth. Perhaps the most important question in the equity markets today is whether the Fed is able to align demand with supply without bringing about a US and global recession.

With respect to earnings, the majority of our companies beat consensus expectations. Moreover, the majority of companies who commented on cost pressures indicated that they could pass them through to customers.

Outlook

Macro concerns are likely to continue to dictate the investment climate in the third quarter as the market struggles to discern what the economic environment will look like post-pandemic. Whether the US and developed markets end up in recession is difficult to predict. Given the unprecedented path to the current point, the economic unknowns today in our view are truly unknown, and therefore making bold and confident short-term predictions on the economic cycle in one direction or the other strikes us as premature. What is clear is that a lot of disinflation is now needed to reach the Fed's target rate, and the US central bank faces a sizable challenge to bring it back in line. We await to see the economic consequences of monetary policy decisions as well as the inflation data.

Should, for example, sticky price CPI start to roll over without meaningful economic damage, then that could represent an inflection point higher for the stock-market. Although many pundits are ruling out this scenario with great certainty, we would not discount it: before this quarter's drop of >15%, the S&P had experienced such a quarterly drop of >15% eight times since WWII, and 100% of the time the S&P was higher one year later, with an average return of +26.07%.

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

	QTD	YTD	1-YR	2-YR	Since Inception*
International Select (net of fees)	**-22.00%**	**-37.77%**	**-36.82%**	**-0.15%**	**16.41%**
MSCI EAFE	-14.51%	-19.57%	-17.77%	4.32%	1.57%

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.

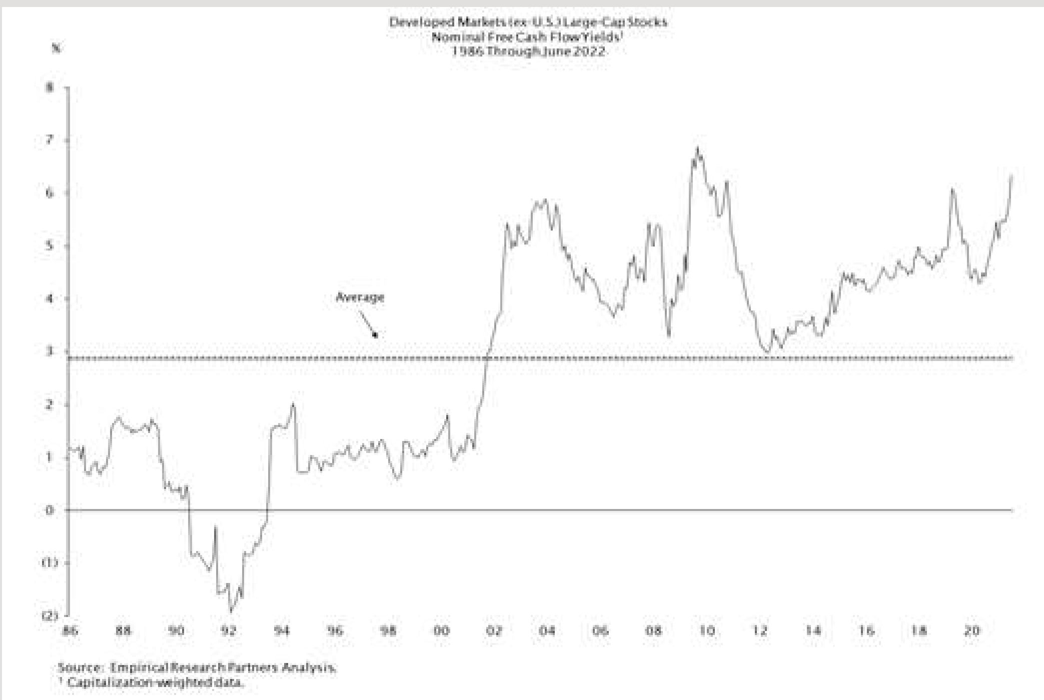
**The inception date of the Oberweis International Select strategy is 9-30-19. Oberweis Asset Management, Inc. ("OAM") is an independent investment management firm that is not affiliated with any parent organization. The composite returns are comprised of all fully discretionary accounts with a minimum value of $5.0 million. Accounts are dollar-weighted within the composite and reported in U.S. dollars.*

The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world. excluding the US and Canada. The index is comprehensive, covering approximately 85% of the free float-adjusted market capitalization in each country.

Outlook (continued)

What could cause the sticky price CPI to roll over? A number of commodities have started to move lower, potentially exerting downward pressure on inflation expectations. The monetary tightening that has occurred so far will slow down housing activity over the coming quarters, if it has not already – starts and sales showed weakness in May and inventories are increasing. The run-up in prices should decelerate or to some degree even reverse. Weaker housing activity implies less construction of new homes, less spending on home improvements, fewer commissions paid to brokers, less liquidity from remortgaging. Such factors are likely to soften aggregate demand but do not by themselves necessitate a housing market crash or a recession.

Per the chart below, free cash flow yields for our addressable universe of stocks are near a historically high level. Absent either a severe deterioration in the economy or spike higher in bond yields, we consider this a provocative valuation that has already priced in a lot of bad news. According to a recent JP Morgan note: "Positioning and sentiment of investors is at multi-decade lows. So it is not that we think that the world and economies are in great shape, but just that an average investor expects an economic disaster, and if that does not materialize risky asset classes could recover most of their losses from the first half." Historically, unusually high bearish sentiment and elevated levels of fear tend to be followed by above-average market returns. Most people are aware that investor sentiment is often an excellent contrarian indicator and that after investors have been the gloomiest, markets frequently have the strongest performance.



Valuation spreads, an indicator of intra-market disparities, sit at above-average historical levels but in our judgement not to a degree that compels big sector bets. This argues for a relatively balanced portfolio, which is how the strategy is positioned. Our primary focus continues to be to own strong companies with great underlying fundamentals, balance sheets and cash flows. In that regard, our portfolio companies had in aggregate an excellent set of earnings reports with strong underlying fundamentals. We are confident that whether the market goes up or down from here in the short-term, on a relative basis, the underlying fundamentals of our portfolio companies will continue to do well.

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Portfolio Highlights

At quarter-end, the portfolio was invested in 30 stocks in 10 countries. Our top fi ve country weightings (portfolio weighting versus the MSCI EAFE Index) at the end of the quarter were the United Kingdom (25.6% vs. 15.9%), France (22.0% vs. 11.2%), Japan (13.1% vs. 22.3%), Switzerland (12.1% vs. 10.5%) and Netherlands (8.8% vs. 4.1%). On a sector basis, the portfolio was overweight information technology (23.4% vs. 7.8%) and underweight financials (10.4% vs. 17.7%).

Organization Update

There are no changes to the International team or strategy.

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 Investment Philosophy

We believe that investing in innovative companies driving revenue and earnings growth in excess of expectations results in superior investment performance over long periods of time. 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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