

OBERWEIS EMERGING MARKETS FUND INSTITUTIONAL CLASS: (OIEMX) MARKET COMMENTARY

3Q 2022

The Quarter in Review

The Oberweis Emerging Markets Fund declined 10.8% during the third quarter of 2022. The MSCI Emerging Markets Small-Cap Index, which serves as our benchmark, fell 525 basis points. Since the Fund's June 2018 inception, the Fund's 8.43% cumulative return has substantially outperformed the benchmark's -2.63% cumulative return.

We are glad to see the end of the quarter. It was ugly for both absolute and relative returns. We think there are clear and simple drivers behind the general decline in emerging markets small-cap stocks as well as our strategy's relative underperformance. Starting with the overall small-cap emerging market's decline, we think the strong U.S. dollar is the main culprit. During the third quarter, the Bloomberg U.S. Dollar Index, which measures the value of the dollar against a broad basket of other currencies, climbed to a level not seen in a generation. Side-by-side charts of the quarterly performance of the MSCI Emerging Markets Small-Cap Index and the Bloomberg U.S. Dollar Index reveal a close, inverse relationship between the two indices. Rising interest rates in the United States undoubtedly lent support to the dollar. We believe, however, that the currency's strength goes beyond interest rates and had a lot to do with heightened demand for the dollar from global investors flying to the relative safety of the greenback.

The cause of the dollar's strength is less important than the effect, and the effect, at least on developing countries, is clear. Many countries, companies and individuals in emerging markets borrow in U.S. dollars. Even more pay for products—from petroleum to pharmaceuticals and copper to corn—with dollars. As that currency rises, developing countries face higher costs that squeeze corporate margins, pressure consumer activity and constrain government spending. The strong dollar's negative impact on emerging markets is well understood by investors, who tend to trim exposure to the developing world when the dollar rises. That dynamic has been playing out all year but picked up steam during the third quarter and led to a substantial decline in the MSCI Emerging Markets Small-Cap Index.

We think the strong dollar drove the declines in equity prices that hit most emerging markets during the quarter. On top of that, however, local political and economic conditions drove substantial declines in one especially large and important developing country's equities. China's rolling citywide Covid lockdowns and slow-motion property crash took a toll on its stock market. The MSCI China Small-cap Index shed more than one quarter of its value during the period, far outpacing the benchmark's decline and generating most of the Oberweis Emerging Markets Fund's relative underperformance during the quarter. Our overweight position in China accounted for 338 basis points of our 491 basis points in relative underperformance.

We are never happy with absolute or relative underperformance and the performance of our Chinese holdings during the quarter was disappointing. However, we remain confident in the carefully selected Chinese companies we own. We thought our Chinese investments—companies that we think enjoy sales growth driven by structural trends that are not reversing, clean balance sheets, and durable competitive advantages—were undervalued coming into the quarter. We believe they are even more irrationally priced now and present some of the best bargains we have seen in our careers.

Turning to the portfolio, on a country attribution basis, issue selection subtracted 60 basis points to relative performance while country allocation subtracted 374 basis points. The biggest detractors from performance were China, where the deleterious impact of issue selection on top of the negative allocation effect detailed above subtracted 607 basis points from relative performance, and India, which reduced relative performance by 109 basis points. Taiwan and Brazil were the two biggest contributors to relative performance, adding 130 basis points and 112 basis points, respectively. Looking at the attribution on a sector basis presents a very different picture. Issue selection subtracted 510 basis points from relative performance and sector allocation added 76 basis points. Real Estate and Communication Services, the largest contributors to performance, added 64 basis points and 43 basis points, respectively. Conversely, Consumer Discretionary and Industrials reduced relative performance by 255 basis points and Industrials by 159 basis points, respectively.

AVERAGE ANNUAL TOTAL RETURNS (as of September 30, 2022)

	QTD	YTD	1 YR	3 YR	Since Inception 5/1/2018	Gross/Net Expense Ratio*
Oberweis Emerging Markets Fund Institutional Class (OIEMX)	-10.76%	-31.27%	-29.41%	6.64%	1.85%	2.55%/1.50%
Oberweis Emerging Markets Fund Investor Class (OBEMX)	-10.78%	-31.40%	-29.58%	6.42%	1.60%	2.80%/1.75%
MSCI Emerging Markets Small-Cap Index	-5.25%	-24.23%	-23.23%	5.54%	-0.60%	

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, 2021. Oberweis Asset Management, Inc. (OAM), the Fund's investment advisor is contractually obligated through April 30, 2023 to reduce its management fees or reimburse OBEMX to the extent that total ordinary operating expenses exceed in any one year 1.75% expressed as a percentage of the Fund's average daily net assets and for OIEMX 1.50%.*

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

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 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 11.9 times at the end of the third quarter, which is lower than the 13.9 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 16.5 times forward multiple while the S&P 500 trades at 16 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.

Fund Highlights

At quarter-end, the Fund was invested in 65 stocks domiciled in 20 countries. Our top five country weightings (portfolio versus the MSCI Emerging Markets Small Cap Index) were China (16.8% vs. 7.3%), India (15.8% vs. 25.3%), Taiwan (13.9% vs. 19.6%), Indonesia (9.3% vs. 2.8%), and Brazil (8.9% vs. 6.7%). The Fund's largest overweight sectors were Information Technology (26.6% vs. 11.9%), Consumer Discretionary (22.6% vs. 12.1%), and Consumer Staples (12.1% vs. 5.1%). The largest underweight sectors were Financials (0.9% vs. 14.0%), Industrials (9.0% vs. 18.2%), and Real Estate (1.0% vs. 8.7%).

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.

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