

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

1Q 2023

The Quarter in Review

The Oberweis Emerging Markets Fund climbed 7.97% during the first quarter of 2023, outperforming the MSCI Emerging Markets Small-Cap Index, which serves as our benchmark, by 410 basis points. As we often say in these commentaries, we are always happy to report strong absolute and relative performance for a quarter. It is certainly better than the alternative. However, our focus remains fixed on generating strong absolute performance—and hopefully, by extension, strong relative performance—over a time period that more closely corresponds to the five-year time horizon we use when analyzing investments. On that measure, we are pleased to say that since the Fund’s May 2018 inception we have generated a 29.30% cumulative return, which compares favorably to the benchmark’s 9.43% cumulative return.

The MSCI Emerging Markets Small-Cap Index ended the quarter with a positive return, but it was not a very broad-based rally. More than 100% of the index’s return came from Taiwan and South Korea, which are the second and third largest country weights in the benchmark and were up 15.5% and 16.3%, respectively. They performed well alongside the strong global rally in Information Technology stocks as investors anticipated a pause, or even a reversal, in interest rate hikes after a few weak employment datapoints and some high-profile bank failures revealed cracks in the overall economy. Both Taiwan and South Korea are key players in the world’s tech ecosystem and, indeed, the technology sectors within those countries were primary drivers of their relative outperformance. As tech stocks caught a bid, those countries’ equity markets naturally did well.

The outsized contribution to emerging markets small-cap’s returns from one sector in two countries is remarkable, but looks paltry next to the S&P 500 where three technology stocks—Apple, Microsoft and Nvidia—generated 54% of the benchmark’s quarterly return. The inverse relationship between interest rates and the tech sector’s performance is clear. Rising interest rates fall hard on companies, like many in the tech sector, with high valuation multiples and with profits that are still the promise of tomorrow. Maybe the market is right. Maybe the end (of rising rates) is nigh. We admit to being at turns bemused, perplexed and horrified by the cloud cuckoo land hall of mirrors stock market world we live in where good economic news is bad news because it means the Fed will continue raising rates. If the market falls because of that good economic news, that is good news because then the Fed will change course. But, if the good-news-bad-news-good-news waltz leads to a market rally, well, that is bad news and the market falls, which is of course good news. We, therefore, remain mostly agnostic as to the future direction of rates and try hard to spend our mental energy both finding companies that can succeed regardless of the interest rate outcome and constructing portfolios that do not rely on a particular macroeconomic scenario.

After Taiwan and South Korea, the third biggest contributor to the benchmark’s performance came from Mexico, one of the smaller country weights in the index, which climbed nearly 22% during the first quarter. This was most definitely not a tech story. Industrials and industrial real estate investment trusts lead the way in Mexico as investors scrambled for exposure to that country’s “nearshoring” boom. Ongoing tensions between the U.S. and China has led some companies to shift capacity from China to Mexico. Other firms are investing south of the border in response to painful lessons learned during Covid about the vulnerability of long-distance supply chains. Most recently, the Inflation Reduction Act linked government subsidies to goods produced in America or in a country with whom America has a free trade agreement, such as Mexico. The combined effect of all three has kickstarted a flurry of foreign investment in America’s southern neighbor that catapulted Mexican equities near the top of the emerging markets leaderboard. We do not expect Mexican equities to continue climbing at that blistering pace but do believe that we are still in the early stages of the nearshoring process that should be generally positive for the Mexican economy.

AVERAGE ANNUAL TOTAL RETURNS (as of March 31, 2023)					
	QTD	1 YR	3 YR	Since Inception 5/1/2018	Gross/Net Expense Ratio*
Oberweis Emerging Markets Fund Institutional Class (OIEMX)	7.97%	-9.63%	17.45%	5.37%	2.65%/1.50%
Oberweis Emerging Markets Fund Investor Class (OBEMX)	7.97%	-9.88%	17.14%	5.12%	2.90%/1.75%
MSCI Emerging Markets Small-Cap Index	3.87%	-10.99%	20.68%	1.85%	

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, 2022. Oberweis Asset Management, Inc. (OAM), the Fund’s investment advisor is contractually obligated through April 30, 2024 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%. Effective May 15, 2023, the adviser may recoup the amount of any expenses reimbursed under the contract within three years following the date of the reimbursement if the recoupment does not cause the Fund’s expenses to exceed the expense limitation in place at the time of the recoupment, or the expense limitation in effect at the time of the initial reimbursement, whichever is lower.*

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.



The Quarter in Review (continued)

A somewhat different country mix drove the Oberweis Emerging Markets Fund's returns during the quarter. India was the largest contributor, generating more than 200 basis points in relative outperformance as our holdings climbed nearly 5% while the benchmark's Indian holdings fell more than 4 percent. China, the second largest contributor, added 134 basis points in relative outperformance. Taiwan was the third largest contributor, adding 121 basis points in relative performance. As with India, stock selection drove outperformance in China and Taiwan, adding 162 basis points and 153 basis points, respectively. South Korea, Malaysia and Saudi Arabia were the three biggest detractors from relative performance on a country basis. Our underweight positions in South Korea and Saudi Arabia generated most of the relative underperformance in those countries, while poor stock selection drove the underperformance in Malaysia.

For the overall Fund, stock selection added 280 basis points to relative outperformance, while country allocation added 180 basis points. Looking at the attribution on a sector basis, stock selection added 264 basis points to relative performance and sector allocation added 196 basis points. Consumer Discretionary and Industrials were the largest contributors to performance, adding 306 basis points and 58 basis points, respectively. The largest detractors were Communication Services, which subtracted 33 basis points in relative performance, and Consumer Staples, which subtracted 14 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.

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 12.1 times at the end of the first quarter, which is lower than the 15 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 16.1 times forward earnings while the S&P 500 trades at 18.8 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 72 stocks domiciled in 20 countries. Our top five country weightings (Fund versus the MSCI Emerging Markets Small-Cap Index) were Taiwan (19.7% vs. 22%), China (17.2% vs. 9.0%), India (12.2% vs. 21.6%), South Korea (11.1% vs. 15.3%), and Indonesia (8.6% vs. 2.5%). The Fund's largest overweight sectors were Information Technology (34.3% vs. 17.5%), Consumer Staples (14.3% vs. 6.7%), and Energy (5.1% vs. 2%). The largest underweight sectors were Industrials (7.1% vs. 16.2%), Materials (5.8% vs. 13.9%), and Financials (4.7% vs. 10.3%).

Organization Update

There were no organizational changes 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:

Brett Pierson, Director, Head of National Key Accounts & Advisor Sales
(800) 323-6166 | (630) 577-2354 | brett.pierson@oberweis.net

Tom LaBelle, Associate Director, National Key Accounts & Advisor Sales
(800) 323-6166 | (630) 577-2367 | thomas.labelle@oberweis.net

Oberweis Asset Management, Inc.
3333 Warrenville Rd., Suite 500, Lisle, IL 60532