Oberweis Asset Management

OBERWEIS GLOBAL OPPORTUNITIES FUND INSTITUTIONAL CLASS: (OBGIX) MARKET COMMENTARY

2Q 2023

The Quarter in Review

During the second quarter, The Oberweis Global Opportunities Fund returned 0.47% versus 3.62% for the MSCI ACWI Small-Cap Index. Year-to-date, the Fund returned 8.35% versus 8.02% for the Index.

Market Environment

There's an old adage that the stock market climbs a wall of worry. The first half of 2023 appears to be a case in point. Despite persistent concerns of inflation and recession, global equity markets broadly rebounded. Both U.S. and international equities rallied materially, except for China, where equities fell 5.46%[1]. Globally, growth stocks outperformed value stocks, while large-cap stocks fared better than small.

The key issues for investors - inflation, recession, and Russia's war on Ukraine – have not changed since last year. While the mainstream financial media spends a significant amount of time debating the merits, timing and magnitude of a supposed "impending recession," most economists would admit that economics is an inexact science and predicting a recession is often a fool's errand. As bottom-up stock pickers, we claim no edge in macroeconomic forecasting, as the associated data lies in clear view for all investors to see. Instead, we assess macro risks and influences on individual company fundamentals and discount those risks as we would any other.

What we see in the global economy is a mixed picture: there are plenty of positive and negative data points out there to substantiate one's position (as behavioral finance folks, we call this "confirmation bias"). On the negative side, the Fed continues to raise rates and has signaled its intention for additional hikes later this year, and we know the impact of tighter monetary policy on the economy has historically lagged. The U.S. ISM Manufacturing Purchasing Managers' Index (PMI) reading of 46 signals contraction, and the Eurozone reading of 43 is even worse. The resilient consumer – who drives 70% of the U.S. economy -- has seen excess savings they accumulated during Covid dwindle just as student loan forgiveness is set to expire. They are also facing the worst housing affordability picture since 2008 as mortgage rates eclipse 7%. On the positive side, the Services PMI reading of 54 signals expansion, so that part of the U.S. economy remains resilient. Future earnings estimates point to growth as inflation is finally abating and corporate profit margins rebound. While the consumer is seeing savings shrink, they enjoy a record-low debt-service ratio and they still have jobs. Rising rates have yet to hit employment, which continues to surprise to the upside. Job openings are still near all-time highs and non-farm layoffs have yet to inflect upward.

What's it all mean? We don't profess to know. But here's what we do know. First, we continue to find companies posting significant positive earnings surprises driven by misunderstood fundamental changes that should, based on our research, lead to additional earnings surprises in the future. These are idiosyncratic fundamental changes that tend to trump economic headwinds. Second, we know small-cap stocks are cheaper relative to large-cap stocks than they've been in more than 20 years. In fact, today's relative valuation discount sits around two standard deviations, which means the current valuation delta between small-cap and large-cap stocks only happens around 5% of the time. Third, we know that non-U.S. stocks are much cheaper than their U.S. counterparts, especially in emerging markets. International equities have underperformed their U.S. brethren for a decade. Meanwhile, the U.S. large-cap market has been led by a narrow group of stocks trading at high valuations. The top 10 stocks in the capitalization-weighted S&P 500 Index comprise a record 32% of that index. Apple (AAPL) is now bigger in capitalization than the entire Russell 2000 and the top 5 market cap names are 3.5 times the market cap of small caps. Index investors unknowingly have a lot of eggs in a very small basket, and as a contrarian that set-up seems pretty compelling to us. We'd be surprised if small-caps didn't outperform large-caps over the next decade. We also expect that, despite today's uncertainties, international equities are likely to revert to more normal valuations over time.

[1] As measured by the MSCI China Index

AVERAGE ANNUAL TOTAL RETURNS *(as of June 30, 2023)*

	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 1/7/1987	Gross/Net Expense Ratio*
Oberweis Global Opportunities Fund Institutional Class (OBGIX)**	**0.47%**	**8.35%**	**21.94%**	**9.60%**	**7.17%**	**9.37%**	**8.89%**	**1.28%/1.27%**
Oberweis Global OpportunitiesFund Investor Class (OBEGX)	**0.44%**	**8.22%**	**21.66%**	**9.33%**	**6.92%**	**9.10%**	**8.62%**	**1.52%/1.51%**
MSCI ACWI Small-Cap Index	3.62%	8.02%	13.02%	10.83%	4.53%	7.62%	N/A	

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, 2023 to reduce its management fees or reimburse OBEGX to the extent that total ordinary operating expenses, as defined, exceed in any one year the following amounts expressed as a percentage of each Fund's average daily net assets: 1.8% of the first $50 million; plus 1.6% of average daily net assets in excess of $50 million and for OBGIX 1.55% of the first $50 million; plus 1.35% of average daily net assets in excess of $50 million.*

***Institutional Class shares OBGIX performance information was calculated using the historical performance of Investor Class shares for periods prior to May 1, 2017.*

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

The MSCI ACWI Small-Cap Index (Net is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of small cap developed markets and emerging markets, with minimum dividends reinvested net of withholding tax. The MSCI ACWI Small-Cap Index began on May 31, 1994. It is not possible to invest directly in an index.

Market Environment (continued)

In Europe, it is hard to find any strategist with much to say that's positive. As European consumers have been deprived of cheap Russian natural gas, the cost of energy has sapped an ever-larger share of disposable income. That in turn has left the European consumer with less to spend, causing more pronounced economic slowness than in the U.S. That said, European stocks trade at a sharp discount to their American counterparts and trends, on the margin, appear to be improving. Energy prices in Europe are down year-over-year, which contributes to input price deflation and potentially higher margins. Much pessimism is already built into European stock prices, and the drags from input costs, inventories and capital spending appear to be marginally easing, which creates reasonable positive conditions for earnings surprises in the quarters to come.

Perhaps most difficult to forecast is China, where economic data has mostly been weak so far and unfriendly business policies have chased away many foreign investors. Again, this news isn't new and Chinese equities are the among the cheapest in our investable universe. Relief for investors could come if the government commits to a new stimulus program. The worse the economic news, the greater the probability that the government will shift from a policy of deleveraging to stimulus, and it appears that pendulum has already begun to swing. When the Chinese government turns on the spending spigot against a backdrop of depressed stock prices, in our view you want to be in on the deal.

While sentiment may swing wildly in the short-run in response to incremental economic data, comments by the Federal Reserve, headlines, and TV soundbites, our bottom-up investment strategy focuses instead on companies demonstrating better-than-expected earnings power driven by transformational change. The P/E multiples afforded such companies may vary from quarter to quarter based on investor risk appetite, but we believe that the ultimate valuations of such companies will be driven by their ability to innovate, create new products, take market share, and generate cash flow back to shareholders. Times like today, when valuations for such companies are very reasonable amid uncertain economic times, have been historically favorable for investors in our strategies.

Fund Highlights

As of June 30, 2023, the Fund was 94.4% invested in 52 different positions. The Fund had its largest over-weightings in technology (36.7% average weighting during the quarter versus 11.8% for the MSCI ACWI Small Cap Index) and healthcare (16.9% versus 10.6%). The Fund was most underweight financials (1.1% versus 13.2%), real estate (0.0% versus 8.2%), and materials (2.4% versus 8.4%).

During the second quarter, the Fund was positively impacted by stock selection in the UK (where our holdings returned 21.4% versus 1.3% for the MSCI ACWI Small Cap Index) while it was negatively impacted by stock selection in the US (2.51% versus 5.26%). At a sector level, the Fund was positively impacted by its overweight exposure to real estate while it was negatively impacted by stock selection in health care (1.10% versus 5.98%). In terms of geographic distribution, the Fund was on average 55.9% invested in North America, 21.4% in Europe, and 19.6% in Asia.

Organization Update

There were no changes to the team this quarter.

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.

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