Oberweis
Asset Management

INTERNATIONAL SELECT MARKET COMMENTARY

2Q 2023

Review

The International Select Strategy had a strong first half of the year and returned +14.31% (14.08% net of fees) vs. +11.67% for the benchmark, the MSCI EAFE Index. During the second quarter, the strategy returned +2.88% (2.78% net of fees) vs. +2.95% for the index.

The first half added to the strategy's excellent cumulative track record: Since inception on 9/30/2019, the strategy has compounded a very strong cumulative +73.93% (71.36% net of fees) vs. only +23.96% for the benchmark. As a concentrated, conviction-weighted portfolio, we naturally do not expect it to hug the benchmark and minimize tracking error over the short-term. In fact, our willingness to overweight our best ideas is key to our alpha generation. We are pleased to report that the strategy is delivering on its goal of generating very high cumulative alpha and ranks, by far, as the #1 top-performing strategy in its asset class since inception (Source: eVestment (06/30/2023)[1]

Developed equity markets continued to do well during the second quarter. Equities have been strengthened by improved earnings expectations as well as macro data, in particular from the United States, that has been supportive of a soft-landing scenario. Both U.S. consumer confidence and durable goods orders exceeded expectations in May, while new home sales increased by 20% year-on-year despite the increase in mortgage rates. This data contrasts with the prevailing consensus narrative among pundits that the United States will soon lead the global economy into a severe recession. Furthermore, the improvement in inflation data has been positive for equity markets. Sticky-Price CPI, which is comprised of a basket of goods and services that reprice slowly and which represent more than 60% of the core index, peaked at over +8% in September when expressed on an annualized month-over-month basis. In May it was +4.1%, down from +4.7% in April. Moreover, rents are the biggest part of this indicator, and they rolled over last year, a dynamic that has largely yet to be reflected in the shelter index. In addition, the growth rate in U.S. average hourly earnings has been decelerating and the quit rate of service workers has declined. Services inflation, which has been central to the Fed's view of price pressure, also fell further in May. For the first time in over a year, at its June meeting the Federal Reserve left interest rates alone. The yield curve has steepened from its low in February, with the market building in, at a minimum, a pause from the Central Bank after one more rate increase next month. However, Chairman Powell has explicitly suggested otherwise, stating that more rate hikes are likely this year.

Internationally, the inflation trends in the U.S. have been mirrored, with the portion of countries reporting large positive surprises in headline inflation continuing to decrease. Euro area headline inflation fell to +5.5% year-on-year in the June report, below consensus. Inflation in Spain and Switzerland even fell below 2%. Similarly, in Japan, the BOJ is forecasting easing core inflation after slower than expected increases in CPI in June. This was allied with its latest Tankan survey signaling faster business investment and increased production.

Outlook

In the United States, neither consumers nor public companies went on borrowing binges over the last decade, and both refinanced long near the extraordinary bottom in rates. Consequently, the rate sensitivity of the economy is lower compared to prior cycles. The unemployment rate in the U.S. for June was 3.6%, near a five-decade low. Indeed, it has been below 4% for the longest stretch in 50 years and is now around 100bps below where it was when the tightening campaign started. As such, at this moment, the argument that higher rates will harm the labor market is hard to make. Indeed, if anything, the data to date suggests the economy is highly resilient. Moreover, as mentioned above, the recent trends in inflation point to slowing inflation. A continuing combination of disinflation and healthy demand lowers the odds of an economic downturn and is likely a friendly environment for equities.

[1] Based on data submitted to eVestment as of 7/10/2023. Peer group defined as all EAFE All Cap Equity strategies tracked by eVestment. eVestment provides third party databases, including the institutional investment database from which the presented information was extracted. Over 4,500 firms actively submit data to eVestment. No representation or warranty is made by Oberweis Asset Management, Inc. ("OAM") as to the validity and appropriateness of the eVestment rating. eVestment ratings should not be viewed as representative of the experience of other investors and is no guarantee of future performance. OAM pays a subscription fee for services to eVestment.

AVERAGE ANNUAL TOTAL RETURNS *(as of June 30, 2023)*	QTD	YTD	1-YR	3-YR	Since Inception*
International Select (gross of fees)	**2.88%**	**14.31%**	**13.88%**	**4.52%**	**15.90%**
International Select (net of fees)	**2.78%**	**14.08%**	**13.43%**	**4.10%**	**15.45%**
MSCI EAFE	2.95%	11.67%	18.77%	8.93%	5.89%

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. Net-of-fee composite returns are calculated using the highest model investment advisory fees applicable to portfolios within the composite. 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. It is not possible to invest directly in an index.

Outlook (continued)

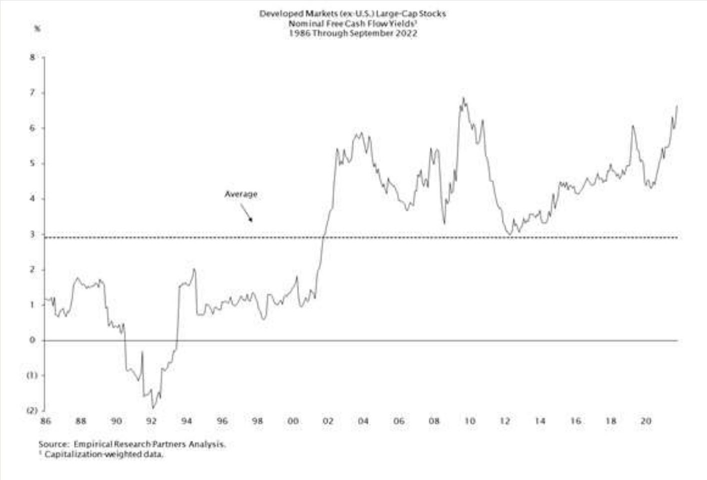
A concern with an aggressive Fed is the impact on the banking sector, where the mini-financial crisis last spring could still foreshadow larger issues to come. In particular, commercial real estate looks vulnerable with significant refinancing needs (more than 40% of bank loans maturing this year and next). The cost of this refinancing is now above the rate embedded in the stock. Until now, there have been few non-performers in the banks' commercial real estate loan books, but it may be that credit problems could worsen, even if set against a benign economic climate. Per above, the recent economic data has lent support to the soft-landing scenario, an outcome that would reduce the odds of a credit cycle.

Internationally, it is hard to find many strategists who have much that is positive to say on Europe, making the consensus opinion quite bearish on the region. However, Empirical Research Partners, who we have found to be among the best market strategists, have an overweight on Continental Europe[2]. Notably, energy prices in Europe are down year-on-year, which contributes to input price deflation in the Eurozone and enables higher margins. Overall, the drags from input costs, inventories and capital spending appear to be easing in the developed world, resulting in improving margins of the core market (i.e. ex-commodities). As a result, we expect earnings to move higher over time within our investible universe.

In Japan, a series of corporate governance reforms announced by the Tokyo Stock Exchange encourages listed companies to create a plan to improve capital efficiency. Furthermore, the expansive monetary policy of the Bank of Japan, which started under Shinzo Abe, has continued in Kazuo Ueda's term. Last but not least, Japan is emerging as an alternative to China, a gateway to Asia where the rule of law is respected. All this is leading to significant capital flows into Japan, including investments by Warren Buffett.

Precisely because the fate of the economy remains difficult to diagnose, many investors and analysts tend to – in line with basic human nature – "err on the side of caution", which means they err. They tend to over-focus on the negative rather than analyze the reward/risk in an emotionally unbiased fashion. For example, for six quarters in a row, investors have been expecting a global recession to happen in the next 12 months. This has turned out to be wrong. As a result, many investors miss out on attractive buying opportunities. In a research note in May of last year, Morgan Stanley forecasted that the S&P would fall to 3,400. It never did, yet meanwhile risk aversion rose markedly. Many market participants got spooked and sold equites near the lows or did not take advantage of the attractive entry points. Today the S&P sits well north of 4,000, with New York Federal Reserve President John Williams recently stating that he does not have a recession in his forecast. To recall, we stated in our Q3 2022 letter that the prevailing historically high free cash flow yields had always proven to be highly attractive investment entry points for astute long-term investors. Since then, the strategy is up over 20%.

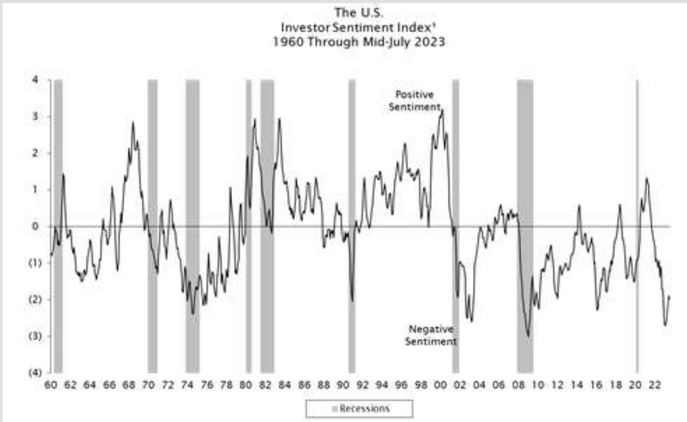
With respect to current valuations across our investible universe, free cash flow yields for large cap stocks in developed markets remain near historical highs, even after the subsequent positive quarters:



Further, investor sentiment and expectations for forward returns remain among the lowest they have ever been. Counter to common investor behavior, which tends to shy away from deploying new capital when consensus opinion becomes fearful, we have found that, historically, attractive valuations and near-trough expectations have generally made a favorable set-up for forward-looking long-term returns.

[2] Strategy update with Mike Goldstein, Chief Strategist, Empirical Research Partners, June 29th, 2023. Page 7.

Outlook (continued)



Source: Baker, M. and Jeff Wurgler, 2007. Investor Sentiment in the Stock Market. *Journal of Economic Perspectives*, 21, pp. 129-151, National Bureau of Economic Research, Empirical Research Partners Analysis.
[1]Smoothed on a trailing three-month basis.

Our primary focus continues to be investing in strong companies with great underlying fundamentals, balance sheets and cash flows. Our holdings tend to be niche-oriented firms operating in disruptive markets. GDP matters, but it generally is not the main driver of long-term earnings growth. In that regard, our portfolio companies had in aggregate a solid 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 companies will continue to do well.

Portfolio Highlights

At quarter-end, the portfolio was invested in 33 stocks in 11 countries. Our top five country weightings (portfolio weighting vs. the MSCI EAFE Index) at quarter end were Japan (18.6% vs. 22.4%), United Kingdom (16.0% vs. 14.7%), France (15.1% vs. 12.4%), Switzerland (14.7% vs. 10.1%), and the Netherlands (8.2% vs. 4.6%). On a sector basis, the portfolio was overweight consumer discretionary (19.7% vs. 12.6%) and underweight materials (3.6% vs. 7.4%).

Organization Update

There are no changes to the International team or strategy.

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 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. It also requires the patience and fortitude of a long-term investor and to hold structural winners through the short-term jitters of the stock market.

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