Oberweis
Asset Management

OBERWEIS INTERNATIONAL OPPORTUNITIES FUND INSTITUTIONAL CLASS: (OBIIX) MARKET COMMENTARY

4Q 2023

Review

During the fourth quarter, the International Opportunities Fund returned +8.41% vs. +11.18% for the benchmark, the MSCI World Ex USA Small Cap Growth Index. For the year, the Fund returned +5.23% vs. +10.57% for the benchmark.

Returns of the past two years have been among the more difficult since the Fund's inception in 2007, following a very strong period the prior years. One of the challenges in running a Fund focused on a specific market anomaly is the inherent factor exposure of the portfolio relative to its benchmark. In our case, we seek to invest in misunderstood growth situations, often evidenced by earnings surprise or earnings revision. We use earnings surprise and earnings revision as a signal of potential misunderstanding. Obviously, that means the Fund will consistently have exposure towards earnings revision and earnings surprise, and that exposure adversely affected our return in 2023.

To quantify, Empirical Research Partners (ERP) studied the effect of earnings revision on return in 2023 among non-US small-cap equities. Across the entire international small-cap universe, they found a marked variance in returns between companies with significantly positive earnings revisions and those with the worst revisions. This was most pronounced in some of our largest sectors, like industrials, information technology, and healthcare. In industrials, the return spread between the quintile with the highest revisions and the lowest quintile was -8.2%, meaning companies with the worst revisions materially outperformed. Similarly, in healthcare the return spread between the best quintile and the worst quintile was a massive -25.4%. In information technology, the spread was -16.1%. Since a large share of our holdings exhibit strong fundamentals that tend to lead to high positive earnings revisions, it is easy to understand why we lagged in 2023.

Going forward, we expect our process to continue to generate alpha over the long term just as it always has in the past over full market cycles. If anything, we believe the recent underperformance incrementally increases future return potential. We exploit a market anomaly that has been tested for 60 years. It persists because of behavioral biases that are unlikely to subside. Our team is the same and our process remains unchanged.

Also, despite a tough period in the short-term, our long-term track record is strong. The Fund has returned a strong cumulative +218.03% vs. +96.49% for the benchmark. While our longest shareholders have done very well with us, we can certainly empathize with shareholders whose entry timing has proven less opportune. We ask for your patience, as such style headwinds do not tend to persist indefinitely and we fully expect that some of these headwinds will eventually shift to tailwinds.

Valuations for international small-caps look very attractive. Notably, this is true both in absolute and relative terms. Absolute metrics like free cash flow yields of non-US small-caps point to some of cheapest valuations of the last 30 years (see chart). Further, after a decade of US large-cap dominance, the gap between large-cap and small-cap valuations is arguably the largest we have seen in our careers. We have found that some of the best entry points for our strategy have occurred when valuations look cheap, and that is the case right now. As a result, the team recently added significantly to their personal holdings in the Fund.

AVERAGE ANNUAL TOTAL RETURNS *(as of December 31, 2023)*							
	QTD	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**	**Since Inception 2/1/2007**	**Gross/Net Expense Ratio***
Oberweis International Opportunities Fund Institutional Class (OBIIX)**	**8.41%**	**5.23%**	**-12.24%**	**6.33%**	**4.26%**	**7.08%**	**1.17%/1.09%**
Oberweis International Opportunities Fund Investor Class (OBIOX)	**8.27%**	**4.89%**	**-12.48%**	**6.05%**	**3.99%**	**6.81%**	**1.97%/1.59%**
MSCI World ex-US Small-Cap Growth Index	11.18%	10.57%	-4.24%	6.69%	4.88%	4.07%	

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.

Institutional Class shares OBIIX performance information was calculated using the historical performance of Investor Class shares for periods prior to December 26, 2023. Investor Class share OBIOX inception date 02/01/07.

**Expense ratio as of 12/31/23. Oberweis Asset Management, Inc. (OAM), the Fund's investment advisor is contractually obligated through April 30, 2025 to reduce its management fees or reimburse OBIOX to the extent that total ordinary operating expenses exceed in any one year 1.60% expressed as a percentage of the Fund's average daily net assets and for OBIIX 1.10%. 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 MSCI World ex-US Small-Cap Growth Index (Net) is a free float-adjusted market capitalization weighted index that is designed to measure the performance of small cap growth developed markets excluding the UIS, with minimum dividends reinvested net of withholding tax. It is not possible to invest directly in an index.

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Source: Empirical Research Partners Analysis.
[1] Capitalization-weighted data. Developed Markets (ex-U.S.) Small Cap. Stocks data is Small-Cap stocks included in the MSCI World (ex-U.S.) Index.

Market Environment

Globally, equity returns in the fourth quarter were dominated by the behavior of the bond market. This continued a trend that has been a primary feature of 2023, with the majority of the return dispersion of stocks this year explicable by interest rate changes. At year-end, the U.S. 10 Treasury yield closed at 3.87% having peaked at just below 5% in mid-October following a dramatic move higher from Labor Day. A strong U.S. economy and the growing budget deficit contributed to the rise, along with the Federal Reserve raising its forecast for real short rates by 50 basis points at its September meeting. Just as "higher for longer" began to be priced in by investors, the October CPI report was more benign than expected, before the Fed signaled at its December meeting that it may start cutting interest rates in 2024. This dynamic was mirrored in the rest of the developed world. In the Euro area year-over-year inflation started the year at +8.6% in January, moving lower to +2.4% in November, well below expectations. By year-end German bund yields had fallen almost 100bps from their 2.97% peak in October. The situation was similar in the United Kingdom. In Japan, yields also declined but this coincided with a strengthening yen, likely driven by the decline in U.S. rates as well as a continuing debate over potential tightening of monetary policy by the BoJ. Notably, rising rates in 2022-2023 disproportionately hurt small-cap growth stock valuations; some of the best periods in history for small-caps have occurred when the market discounts the end of a rising interest rate cycle. We do not know if significant cuts will happen in 2024 or not, but at a minimum we do not anticipate more increases.

Furthermore, in the key developed markets there were encouraging signs of expanding economic activity over the quarter. In the United Kingdom, December PMI data improved as business sentiment turned positive on consumer demand as well as relief from cost pressures. In the Euro area, PMI data decelerated at the end of the year but the underlying forward-looking data, including expectations surveys and new orders, indicate a pick-up in activity in 2024. In Japan, the production outlook for December calls for a +3.2% increase while retail sales growth accelerated for the month of November.

In summary: lower inflation, lower rates, and an improving growth outlook – in combination these factors will usually provide a favorable setting for small-cap equities. The benchmark rallied from the low of the year in late October, adding over 20% from 10/26 into year-end. Valuation spreads, which measure the dispersion of valuations within regions and sectors, and which are an indication of the degree of market concern around the economic outlook, ended the year only slightly above their long-term average. This relatively subdued level compares with more elevated extremes seen during economic contractions, such as early in the Pandemic. Taken together with declining yields, at year-end the equity markets appear to be discounting a soft landing for the global economy as well as a continuing disinflationary environment.

Outlook

As mentioned above, in 2023 the movement of long rates explained the majority of the return dispersion across equity markets, an unusual if not unprecedented occurrence. Such periods have historically proven to be temporary, and when they have ended, equities have generally performed well. If and when this occurs the source of dispersion should become more idiosyncratic with factor exposure explaining a relatively smaller percentage of the returns.

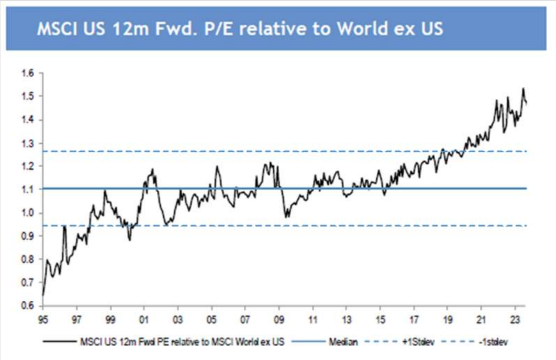
Markets believe that inflation has further to fall. We consider this disinflation expectation – abetted by lower rents in the U.S., and subsiding wage growth pressure in key regions – to be the most reasonable base case. The controversy over where interest rates should be, and the volatility of Treasuries, therefore ought to lessen. In addition, the global data suggest that PMIs are bottoming, with a cyclical earnings recovery in the offing. This, together with a likely benign inflation outcome and a relatively attractive valuation starting point, promises an attractive environment for small cap strategies. There are further reasons to be sanguine. Negative investor sentiment remains near historically high levels, a bullish contrarian indicator.

Outlook (continued)

The outlook for developed markets consumer spending remains on solid footing: house prices should be supported as rates fall while real incomes have improved due to solid wage gains and cooling inflation; consumer debt service ratios are still contained. Also, artificial intelligence became a cornerstone of the Zeitgeist in 2023 and for good reason in our view. It will likely take a number of years for AI's impact on the economy to become material to the big picture. However, over time automation is likely to continue to exert downward pressure on aggregate wage growth, supporting margins. Additionally, a significant number of jobs will conceivably benefit from use of the technology, enhancing productivity.

Set against these positive factors, the market's valuation structure reflects its optimistic view of the economic outlook, with spreads sitting close to their long-term average and material intra-sectoral discrepancies reasonably subdued. With the market now also pricing in interest rate cuts by the Fed in 2024, a potential Achilles' heel for global equities is if either growth or inflation data argue against such a benign narrative. There remains scope for events to drive risk premia higher. Notably, a commercial real estate credit cycle in the U.S. continues to be a real risk. Also, roughly half of the world's population is due to vote over the next twelve months, most conspicuously in the United States. Military conflict has the potential to spread over multiple parts of the world.

When compared to the United States, international valuations look to represent compelling value. The chart below from JP Morgan shows that the US 12 month forward PE remains close to a 30 year high:



Fund Highlights

At quarter-end, the Fund was invested in 62 stocks in 13 countries. Our top five country weightings (portfolio weighting versus the MSCI World Ex USA Small Cap Growth Index) at the end of the quarter were United Kingdom (23.4% vs. 13.1%), Japan (20.0% vs. 31.2%), Canada (13.9% vs. 9.1%), Netherlands (10.2% vs. 1.2%), and Australia (8.7% vs. 8.4%). On a sector basis, the Fund was overweight industrials (31.2% vs. 23.4%) and underweight health care (3.7% vs. 9.7%).

Organization Update

There are no changes to the International team or strategy.

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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