Oberweis Asset Management

INTERNATIONAL SELECT MARKET COMMENTARY

4Q 2023

Review

During the fourth quarter, the International Select Strategy returned +9.31% (9.20% net of fees) vs. +10.42% for the benchmark, the MSCI EAFE Index. For the year, the strategy returned +18.07% (17.60% net of fees) vs. +18.24% for the benchmark. Since inception on 9/30/2019, the strategy has cumulatively returned +79.65% (76.65% net of fees) vs. +31.25% for the benchmark. Given the strategy's strong track record, the team recently added significantly to their personal holdings in the strategy.

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.

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 equities. The benchmark rallied from the low of the year in late October, adding approximately 15% 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 equities. There are further reasons to be sanguine. Negative investor sentiment remains near historically high levels, a bullish contrarian indicator.

AVERAGE ANNUAL TOTAL RETURNS *(as of December 31, 2023)*					
	QTD	1-YR	3-YR	4-YR	Since Inception*
International Select (gross of fees)	**9.31%**	**18.07%**	**-8.07%**	**12.37%**	**14.78%**
International Select (net of fees)	**9.20%**	**17.60%**	**-8.44%**	**11.92%**	**14.33%**
MSCI EAFE	10.42%	18.24%	4.02%	4.95%	6.61%

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.*

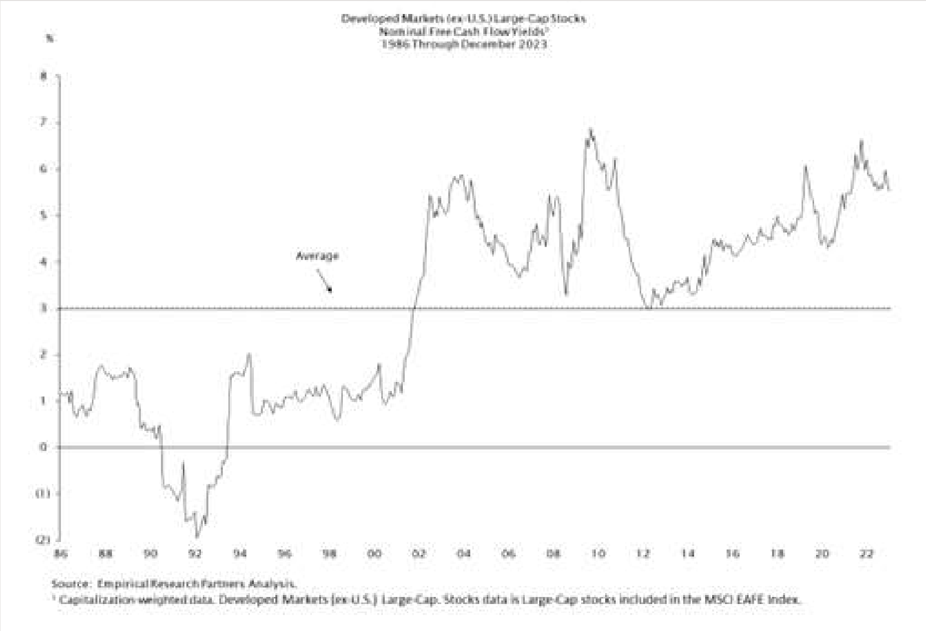
The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world. excluding the US and Canada. The index is comprehensive, covering approximately 85% of the free float-adjusted market capitalization in each country. It is not possible to invest directly in an index.

Outlook (continued)

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.

Valuations for international stocks look very attractive. Notably, this is true both in absolute and relative terms. Absolute metrics like free cash flow yields point to some of cheapest valuations of the last 30 years (see chart next page).



Furthermore, 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:

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.

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Portfolio Highlights

At quarter-end, the portfolio was invested in 33 stocks in 12 countries. Our top five country weightings (portfolio weighting versus the MSCI EAFE Index) at the end of the quarter were Japan (21.5% vs. 33.6%), Switzerland (17.1% vs. 4.6%), United Kingdom (14.5% vs. 15.2%), France (10.1% vs. 4.0%), and Canada (6.5% vs. 0.0%). On a sector basis, the portfolio was overweight consumer discretionary (23.5% vs. 11.9%) and underweight consumer staples (5.0% vs. 9.3%).

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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