

OBERWEIS INTERNATIONAL OPPORTUNITIES FUND

INSTITUTIONAL CLASS: (OBIX)

MARKET COMMENTARY

1Q 2024

Review

We are pleased to report a strong first quarter during which the International Opportunities Fund returned +6.47% vs. +2.26% for the benchmark, the MSCI World Ex USA Small Cap Growth Index. The year-to-date outperformance can be attributed to a style swing back to an environment where bottom-up fundamentals are the main share price driver. As Empirical Research Partners, LLC (ERP) details in a note from mid-March, in 2023 returns could be attributed for the most part to macro forces, specifically movement in bond yields. For a bottom-up Fund like ours, this was not a favorable environment, but thankfully these environments never last forever. As per ERP, this year the baton has been passed back to fundamentals, and earnings explain recent performance. In our previous commentary, we noted that the team significantly increased its personal investments in the strategy amid the trifecta of a cheap asset class valuation, a fundamentally strong Fund and subsiding macro style headwinds. We view the recent swing in the style pendulum back towards an environment where bottom-up fundamentals drive returns to be in its early stages, and have again added to our holdings in the Fund. Notwithstanding expected short-term fluctuations in performance, we are pleased with the long-term efficacy of the Fund, in accordance with its long-term track record: Since inception on 2/1/2007, has generated a cumulative return of +238.61% vs. +100.94% for the benchmark.

Global equity markets continued to move higher over the quarter, following the strong year-end rally that began in late October 2023. For most of last year, movements in bond yields explained the majority of the dispersion of returns across equity markets. This dynamic peaked in the fourth quarter and, consistent with the precedents, it has proven to be bullish for stocks. In the first quarter, fundamentals were the primary driver of returns, with earnings surprises front and center. Global earnings revisions exited the quarter showing a positive trajectory. 10-year yields across developed markets have been on the rise and have been driven higher more by improvements in the economic data as opposed to any meaningful increase in inflation expectations. The latest PMI readings in the Euro area showed increases above expectations as well as expansion in the UK. Furthermore, leading indicators have shown ongoing improvement. For the Eurozone, firms' future output expectations continued to improve, for the sixth month in a row. New orders and backlog indices all increased. Similarly, in Japan the March Reuters Tankan business survey showed a sharp improvement in both manufacturing and non-manufacturing sectors.

Recent inflation readings in developed markets have been mixed, and in aggregate have tested, but not disproved, the possibility that we are in the midst of a stop-and-start disinflationary period. In the US, the latest PCE data showed core inflation at +2.78% for February, down from +2.88% in January and +4.45% a year ago. March core CPI rose more than expected in the U.S., leading to yields across developed markets increasing further after quarter-end. Core inflation measures have been soft in the Euro area and Canada, and stronger in the UK. The overall trend, however, appears to indicate we are in a disinflationary period with a path lower that is likely not a straight line. With wage growth moderating in key developed economies (ex-Japan), and globalization once again contributing to deflation in goods, probability favors softer readings in the coming months. In Japan, negotiated wage increases were much stronger than expected in March, seemingly the final data point needed for the Bank of Japan to terminate its negative interest rate policy.

AVERAGE ANNUAL TOTAL RETURNS (as of March 31, 2024)

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 2/1/2007	Gross/Net Expense Ratio*
Oberweis International Opportunities Fund Institutional Class (OBIX)**	6.47%	6.48%	-10.13%	4.58%	4.70%	7.37%	1.17%/1.09%
Oberweis International Opportunities Fund Investor Class (OBIOX)	6.49%	6.22%	-10.36%	4.32%	4.44%	7.10%	1.92%/1.59%
MSCI World ex-US Small-Cap Growth Index	2.26%	7.24%	-4.16%	4.63%	4.81%	4.15%	

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.

*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 1.35% expressed as a percentage of the Fund's average daily net assets and for OBIX 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.

**Institutional Class shares OBIX performance information was calculated using the historical performance of Investor Class shares for periods prior to December 26, 2023.

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.

Review (continued)

The geopolitical environment remains unpredictable and dangerous. The respective wars in Ukraine and Gaza both have the potential to produce significant outcomes that meaningfully impact capital markets. One clear implication already of Russia's invasion of Ukraine is its step-change impact on European defense budgets. Multiple decades of anemic military spending as a percentage of GDP needs to be turned around, urgently. EU defense as an industry appears therefore to be transitioning to at least high single digit growth for the medium-term, a dynamic that still seems to us to be underappreciated. From our conversations with industry suppliers we have learned that Germany, for example, requires approximately 2 million shells annually for ten years before its ammunition stockpiles are replenished. This process has yet to really begin in earnest as most of its current production is needed by Ukraine. Our Fund is overweight the sector and therefore well-positioned to participate in this long-term structural growth.

In summary: geopolitical risks are elevated while earnings revisions and the growth outlook are improving. 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, continue to trade around their long-term average. This relatively subdued level compares with more elevated extremes seen during economic contractions, such as early in the Pandemic. Equity markets are discounting a soft landing for the global economy.

Outlook

Leading indicators for developed markets have shown ongoing improvement, with potential for earnings growth to strengthen. Global composite PMI's are expanding in both manufacturing and services, while manufacturing output prices fell in most major economies in March. Concurrent with upside inflation surprises diminishing outside of the U.S., the outlook for consumers appears to be favorable. In the U.K., where the Fund is overweight, real per capita disposable income is the highest it has been for two years, as wage growth outstrips inflation and household energy costs subside. Data in Japan, Germany and France also points to real income growth. The combination of a benign inflation trend and strong earnings across most developed markets represents a positive environment for equities. Equity markets' valuation structures, with differentials around their long-term average, reflect their overall optimistic view of the economic outlook. The resulting implication is that the current setting is not ripe for big sector bets. Individual stock picking is likely to remain of primary importance.

While we consider the favorable macro scenario priced in by markets to be credible, as always there are risks. Continued increases in long-dated rates could at some point become a sticking point for equities. Forecasting inflation is an infamously imprecise science, and a mild disinflationary outcome is not a given. Labor markets generally have been loosening, but the latest private payrolls data in the U.S. indicate a strengthening market. The price of oil has trended steadily higher year-to-date, likely driven by both supply and demand factors as well as the ongoing escalation in geopolitical tensions. Furthermore, economic growth has remained relatively robust, giving central banks less urgency to ease monetary policy. A continued bear-steepening of the yield curve (essentially long-term rates increasing at a faster rate than short-term rates) would increase the chances of a credit event in commercial real estate. Longer-term, the size and funding of the budget deficit in the U.S. is an overarching issue for global markets.

With respect to valuation, we consider the opportunity set in international developed markets equities to be highly attractive. On both an absolute basis and relative to U.S. small caps, developed markets (ex-U.S.) are trading at valuations well below their long-term average. This is the case when looking at both PE multiples and free cash flow yields. As per a recent ERP analysis, the U.S. small cap universe's PE valuation, with a trailing multiple above 32 times, sits above its long-term average, along with a free cash flow yield that is below that of ten-year Treasury bonds. Looking at large caps, the S&P 500 is selling at approximately 21 times this year's estimates, with a free cash flow yield also currently below that offered by ten-year Treasury bonds. Consequently, the valuation of the world's largest stock market is not necessarily egregious, but neither does it have a lot of room for error.

Viewed in this context, international valuations represent compelling value, particularly in light of the improving economic data. The United Kingdom, for example, is trading at a discount to its 20-year median PE. Even on a sector-adjusted basis, relative to global peers the U.K. is valued as cheaply as it has at any time over the last three decades. Similarly, valuations in the Eurozone also screen very attractive relative to the U.S., along with greater positive economic surprises year-to-date and the potential for the ECB to start cutting rates ahead of the Federal Reserve. Across our key geographies, valuations with low embedded expectations set against a recovering economic environment should provide fertile ground for positive investment returns.



Outlook (continued)

The below chart shows just how attractively priced the Developed Markets (ex. U.S.) Small-Cap asset class is on a free cash flow yield basis:



Fund Highlights

At quarter-end, the Fund was invested in 62 stocks in 14 countries. Our top five country weightings (Fund weighting versus the MSCI World Ex USA Small Cap Growth Index) at the end of the quarter were Japan (23.3% vs. 31.1%), United Kingdom (22.0% vs. 12.5%), Canada (10.1% vs. 9.6%), France (7.2% vs. 3.4%), and Australia (7.1% vs. 8.3%). On a sector basis, the Fund was overweight industrials (36.0% vs. 24.1%) and underweight information technology (7.0% vs. 15.7%).

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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