

OBERWEIS INTERNATIONAL OPPORTUNITIES FUND MARKET COMMENTARY

4Q 2024

Review

We are pleased to report a year of strong outperformance, in which the International Opportunities Fund returned +7.70% vs. +2.57% for the benchmark, the MSCI World Ex USA Small Cap Growth Index. During the fourth quarter, the Fund returned -5.64% vs. -7.60% for the benchmark. Longer-term performance statistics look favorable as well. Over the past 5 years, the Fund has returned cumulatively +18.83% vs. +10.73% for the benchmark. Like any non-benchmark hugging Fund, we expect periods of strong outperformance as well as less favorable periods, fully aware that such cycles may last a couple of years. The key to success is a steady hand, or even better, a contrarian approach, using brief, temporary periods of underperformance to add when prices are cheap.

The most newsworthy event impacting developed markets in the final quarter of 2024 was Donald Trump's victory and accompanying red sweep in the U.S. elections. Other geographies also saw significant political developments over the quarter, with Canada and the two largest members of the E.U. in GDP terms also on the cusp of changes in the balance of power. Germany's ruling coalition was brought to an end immediately after Trump's victory – an important event with potentially significant fiscal implications, which feels somewhat under-emphasized amidst the headlines from the U.S. The German federal elections will be held at the end of February. Additionally, in early December Michel Barnier became the shortest-serving prime minister in modern French political history when he resigned after a vote of no confidence over his fiscal plans. It is unclear yet whether new elections will be required in France.

What is clear is that monetary policy in Europe and other developed markets have continued their shift to a more dovish stance over the fourth quarter. This is likely to persist with disinflationary trends enduring in all of the Euro area, United Kingdom, Canada and Australia. In the U.S., the FOMC lowered the Fed Funds rate by 25bps at its December meeting. However, Chairman Powell also hinted at a slower pace of rate cuts ahead and financial markets have sharply reduced their expectations for monetary policy easing. The implication from Powell's comments is that the post-election changes in the outlook for trade, immigration, fiscal and regulatory policy are at least modestly inflationary. Longer-term bond yields had already started moving higher in advance, ironically inflecting higher after the Fed cut rates at its September meeting. At 4.57% on December 31st, the U.S. 10-year yield sat nearly 100bps higher than where it did prior to that event. In prior letters we have pointed out that a combination of a large structural budget deficit and the much-reduced rate-sensitivity of the economy argue for higher real rates. The higher longer-term yields in the U.S. have, to varying degrees, been replicated in the international developed markets.

The exception to dovish central bank stances has been Japan, where the BoJ maintained the policy rate at 0.25% at its December meeting, but presented an assessment of economic activity and prices that points to an ongoing gradual increase in rates. The central bank's review indicated that it sees Japan's deflation risk as coming to an end with medium to long-term inflation now rising towards 2%, a view supported by a higher-than-expected rise in core consumer prices in November. The BoJ stated that its neutral real rate of interest remains within a range of -1.0% to +0.5%, highlighting a large gap with the current policy level.

Euro area PMIs improved towards the end of the year with stronger services offsetting further deterioration in manufacturing activity, likely influenced by the elevated trade policy uncertainty emanating from the United States. Germany has been amongst the most impacted, and the aforementioned federal election on February 23 could be a pivotal moment for its economy. The likely new chancellor, Friedrich Merz, promises market-oriented reforms of the tax and welfare system, and the manifesto of his center-right CDU/CSU leaves open the possibility of reforming Germany's "debt brake". This could, depending on the electoral math, allow Germany to use its considerable fiscal space for increased defense and infrastructure spending.

AVERAGE ANNUAL TOTAL RETURNS (as of December 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)**	-6.02%	7.70%	-10.57%	3.51%	5.50%	7.12%	1.20%/1.10%
Oberweis International Opportunities Fund Investor Class (OBIOX)	-6.05%	7.54%	-10.79%	3.26%	5.24%	6.85%	1.45%/1.35%
MSCI World ex-US Small-Cap Growth Index	-7.60%	2.57%	-6.11%	2.06%	5.67%	3.99%	

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 12/31/24. 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. Investor Class share OBIOX inception date 02/01/07.

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

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.

Outlook

Looking ahead to 2025, the contrasting opportunity sets of U.S. versus international equities appear stark.

While the U.S. economy has been stronger than most others, the gap in valuations is extreme. From experience, this may be a case of everybody chasing past performance, which does not usually work out well. Over the next decade, the U.S. economy may lead the world, but given starting valuations, U.S. stocks may not. Valuations matter a lot, and U.S. equity valuations are high compared to non-U.S. peers. In the fourth quarter, capital was very sizably deployed to U.S. equities with record inflows, drawn by building pro-business sentiment, stronger economic activity momentum, data that is supportive of the so-called Goldilocks scenario, and concern over the impact of Trump trade policies on non-U.S. economies.

The valuation characteristics of the market echo this optimism. The forward multiple of the S&P 500 increased by +3 points in 2024 to a historically high ~22x, even though it increasingly looks like real ten-year yields will stay above 2%. This combination of a higher multiple with higher discount rate means the market is factoring in high real earnings growth and/or a lower equity risk premium. Furthermore, price momentum in the U.S. has been extreme, with stocks in the highest quintile of price momentum outperforming by more than +20 points over the year, a run that puts it in the top 3% of seven decades of history. As a result, U.S. valuations leave little room for error in a setting where there are many policy unknowns.

In comparison, non-U.S. economies have more problems, but they are already widely discounted in stock prices. There is a lot of room for something positive to happen. The threshold to surprise on the upside is low when the valuation gap is as big as it is today. The PE discount of international stocks to the U.S. is at the widest level for 20 years, around two standard deviations above the mean with every sector discount above its average of the last two decades, in most instances significantly. One can reasonably make the case that the cost of equity in Europe is currently near its highest point at a time when the quality of its listed companies is as high as ever. In France, the worst performing of the developed markets in 2024, the de-rating for midcaps has been especially severe, with multiples now close to the 1st percentile on a 20-year view; with only 30% domestic France sales exposure, this may provide fertile ground for opportunities in the coming twelve months.

Valuation starting points matter in investing, and in the current highly attractive valuation context, it is not difficult to envisage scenarios whereby capital rotates back into international equities. For a start, economic policy uncertainty is unusually high in the Eurozone, and particularly so in France and Germany, with tariff uncertainty front and center. In fact, trade policy uncertainty in Europe is close to the maximum levels seen during the last Trump Presidency. Thus, insofar as the uncertainty itself is a key drag on current European growth, a reasonable conclusion is that the emergence of clear policy early in 2025 will be a clear net positive for European activity. Additionally, German elections will be complete by the end of February and, as alluded to above, a pro-cyclical outcome that is applauded by markets remains likely. Former ECB President and Italian Prime Minister Mario Draghi released a paper in September titled "The future of European competitiveness" calling for, amongst other things, greater investment into research and innovation, defense capabilities and digital infrastructure, as well as advocating deeper banking and capital markets union. CDU leader Merz, the most likely next German Chancellor, is broadly supportive of the recommendations of the Draghi report. With so much of the criticism of Europe centered on the lack of innovation and dynamism in its main economies, in part caused by a throttling interference from regulation, these are realistic policy catalysts for Eurozone equities at a point where valuations do not need much to go right to preface outperformance.

Furthermore, a resolution to the Ukraine conflict, followed by both reconstruction and lower energy prices, coming after a period in which the continent has undergone a significant price shock, would be very bullish for European equities. It is also worth noting that the continent's current relatively subdued economic activity in combination with heightened external pressures is likely to presage easier monetary conditions. Lower rates can reasonably be expected to offer strong support for European stocks with equity yields well in excess of policy rates.

In Japan, Tokyo Stock Exchange reforms continue to usher in a regime change in the country's governance policies with an emphasis on improving returns on equity. Capital returns are increasing, crossholding unwind is continuing and defragmentation and M&A are gaining momentum. Additionally, the macro backdrop is highly constructive with real GDP growth and improving visibility around key policy initiatives, such as monetary policy normalization, real wage growth and increased defense spending. Importantly, it appears as though the Japanese economy has crossed a key checkpoint towards sustainable inflation, with a powerful virtuous cycle of wages and prices likely to continue in 2025. As evidenced by an acceleration in AI-related patent applications over recent years, the country's innovation culture remains strong, earnings estimates have been on a gradually improving trend, and the forward PE remains below the long-term average and near the bottom of its 25-year range.

In many cases, exuberant investors bid up a theme higher than what is rational and it is very hard to predict the precise timing of a subsequent shift. Many times such shifts occur rapidly and most investors identify them too late. We expect to look back in 2035 and realize that 2025 marked a nadir in the sentiment towards and valuation of international equities, making it an historically attractive entry point.



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Fund Highlights

At quarter-end, the Fund was invested in 67 stocks in 13 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 (27.6% vs. 33.0%), United Kingdom (24.1% vs. 12.7%), Canada (13.5% vs. 10.3%), Norway (6.1% vs. 1.8%), and Italy (5.3% vs. 2.5%). On a sector basis, the Fund was overweight industrials (36.9% vs. 26.6%) and underweight information technology (3.8% vs. 15.2%).

Organization Update

There are no changes to the International team or strategy.

Oberweis Asset Management's 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.

For more information please contact:

Brett Pierson, Director, Head of National Key Accounts & Advisor Sales
(630) 577-2354 | brett.pierson@oberweis.net

Tom Labelle, Associate Director, National Key Accounts & Advisor Sales
(630)577-2367 | thomas.labell@oberweis.net

Benjamin Krimmel, Vice President, National Key Accounts & Advisor Sales
(630)577-2358 | ben.krimmel@oberweis.net