Oberweis Asset Management

INTERNATIONAL SELECT MARKET COMMENTARY

1Q 2025

Review

We are pleased to report very strong results for the first quarter. The International Select Strategy returned +13.04% (+12.93% net of fees) vs. +6.86% for the benchmark, the MSCI EAFE Index. The quarter further cemented the strategy's position as one of the leading strategies in the asset class: results for the strategy since inception on September 30, 2019 are excellent, with a cumulative return of +128.86% (+123.93% net of fees) vs. +45.62% for the benchmark, making it by a wide margin the #1 top-performing strategy in the entire eVestment EAFE All Cap Equity peer group (Source: eVestment 3/31/2025[1]). Over the same time period, the S&P has only returned +88.52%.

The first quarter of 2025 was a highly impactful period of geopolitical and global economic change. The period was, in our opinion, a seminal inflection point for markets. We highlight two key developments with far-reaching consequences. Firstly, the new administration's vision to reshape central aspects of the U.S.'s geopolitical, trade and fiscal policies. This has significant global implications for both the balance of trade and GDP growth. Furthermore, it acted as an effective forcing mechanism for increased economic dynamism in non-U.S. developed markets. Secondly, the German federal election in February and subsequently approved fiscal stimulus.

Much of what transpired during the quarter came as no surprise to readers of our quarterly letters. We referenced in our Q4 2024 commentary that a likely center-right CDU/CSU victory in the February election could be followed by a reform of Germany's "debt brake". We also stated that Germany could use its considerable fiscal space for increased defense and infrastructure spending. Both, in fact, are precisely what transpired. On March 21st, the German government approved a constitutional amendment to relax its strict borrowing rules. Key changes include exempting defense spending above 1% of GDP from borrowing limits and establishing a €500 billion infrastructure fund. The market reaction was telling. If one judges the scale of policy importance by the size of the move in Bund yields, then this "whatever it takes" moment was Germany's most significant event since the fall of the Berlin Wall. In particular, the developments around Defense spending came as no surprise. In our Q1 2024 letter we had shared insights from our primary research: "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 portfolio is overweight the sector and therefore well-positioned to participate in this long-term structural growth."

Importantly, we believe Germany's policy path should be viewed not in isolation but within a wider European strategy as architected by Mario Draghi in his report on EU competitiveness released last September. The plan seeks to address key issues for the continent – closing the innovation gap, lower energy prices, increased competition, increased security, reduced dependencies. This was followed in March by the publication of a European Commission policy paper laying out a vision for a "capital markets" union and a "savings and investment" union. Government spending is not at all a necessary lever for this European renewal (fortunately, as Germany's strong fiscal position is a positive outlier). An increased focus on spending productivity and political will are essential, and there are indeed clear indications that spending intentions and political norms are finally changing on the continent.

[1]Based on data submitted to eVestment as of 04/21/2025. 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 March 31, 2025)*					
	QTD	**1-YR**	**3-YR**	**5-YR**	**Since Inception***
International Select (gross of fees)	**13.04%**	**15.24%**	**5.37%**	**18.01%**	**16.25%**
International Select (net of fees)	**12.93%**	**14.78%**	**4.95%**	**17.54%**	**15.79%**
MSCI EAFE	6.86%	4.88%	6.05%	11.77%	7.07%

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.

Review (continued)

A seismic shift appears to be afoot in European political priorities. In addition to the headlines emanating from Berlin, the EU announced an €800 billion “ReArm Europe” plan; Poland announced plans for large-scale military training for all adult males; France is considering extending the protection of its nuclear arsenal to its allies; away from defense, the EU is reportedly planning to cut back its General Data Protection Regulation (GDPR) as part of a much wider plan to cut regulation to spur growth in the region. Similarly, the United Kingdom has announced a spate of directives aimed at deregulating the economy to drive growth, in addition to reducing spending on the welfare state. Not long ago such actions were almost impossible to imagine, especially from a Labour government.

U.S. policy has also been impactful for other key developed markets aside from Europe and the U.K. The political discourse in Canada has been highly shaped by the pressure on trade being placed upon the country by the new tariff policies. While the tariffs may affect U.S. GDP, the impact for Canada would be orders of magnitude greater. Justin Trudeau resigned his position as Prime Minister and was replaced by Mark Carney in March. Carney is actively seeking closer trading ties with Europe. Additionally, nine days after becoming Prime Minister, Carney announced a snap election to take place on April 28th.

The primary direct impact on Japan from tariffs is likely to come from a decline in auto exports. Core inflation data in Japan exceeded market expectations, corresponding to a higher 10-year yield over the quarter, putting the performance of Japanese bonds in stark contrast to U.S. bonds where the 10-year yield declined. The yen consequently appreciated meaningfully against the dollar.

Away from trade policy and geopolitics, the other market-moving narrative over the period has been the possible slowdown and/or reconfiguration of AI spend. If by no means a substantive trend yet with plenty of counter-examples across the industry, Microsoft has repeatedly been reported to be “showing greater discipline” on AI capex with potential delays or even cancelations of some of its AI data center leases. Alibaba’s CEO stated that AI datacenter spend was at “the beginning of some kind of bubble”. Goldman Sachs has revised lower its AI training server outlook, stating that there “remain debates on the demand for intense computing power after the release of more efficient AI models like Deepseek”. Deepseek, a Chinese AI developer, released two new open-sourced models in late January that are, in the words of Microsoft CEO Satya Nadella, “super-compute efficient”, hence calling into question the necessity for ever-escalating capital expenditures.

Outlook

The outlook for equities globally is dominated by the new tariff policy announcements in early April, for which the portfolio had been positioned relatively agnostically. On April 2nd, the announced tariffs imposed a baseline global tariff of 10% on all countries plus an increased reciprocal rate by country which, for some, was as high as 50%. It was not only the breadth of tariffs and their level that surprised markets, but the fact they included the emerging Asian economies that have become increasingly important to the margin story of U.S. equities.

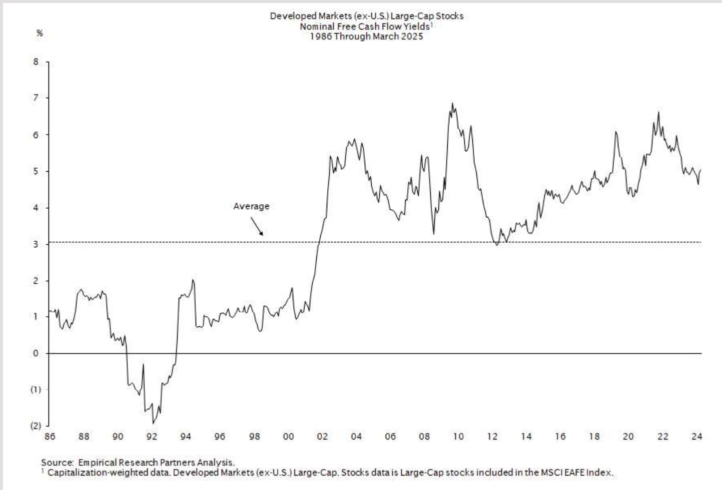
Then, on April 9th, a 90-day pause on the additional country-specific portion of the “reciprocal” tariff was announced, leaving in place all prior tariffs plus the 10% minimum tariff, as well as increasing the tariff rate on imports from China to 145%. Specific sectoral tariffs are to follow. Altogether, the tariff rate on U.S. imports is now at a level which is different from anything that has occurred since the 1930’s. Importantly for the market outlook, together these announcements do not represent a clearing event. Indeed, perhaps the most reliable prediction is for a continuation of the unpredictability that has manifested thus far.

The market will be sensitive to clues about negotiations with the key trading partners, but we would not consider substantial wholesale reversals to be a reliable base case on which to anchor investment decisions. In fact, the methodology used to calculate the reciprocal rates is driven by the relative trade imbalance of the counterparty country and not their actual tariffs imposed on U.S. goods. The implication is that tariffs are viewed as a sticky policy to shrink the United States’ trade deficit. It is difficult to gauge the economic consequences of the tariffs, other than to observe that the new reality is so different to the last 80+ years that second order effects are likely.

Looking beyond the very near-term, and considering the opportunity set globally, we view the prospects for ex-U.S. developed markets to be very compelling. Pro-growth policies are being put into place in Europe, combined, in the case of Germany, with massive fiscal stimulus. Moreover, another potential positive second order effect for non-U.S. developed markets is that they will now benefit from the disinflationary impact of now surplus Chinese exports looking for end-demand, thus facilitating easier monetary policy.

Outlook (continued)

Given these positive factors for non-U.S. developed markets, we view them as well positioned. As ever, valuation starting points matter. The PE discount of international stocks to the U.S. is still around one and a half standard deviations above the mean with almost every sector discount above its average of the last two decades, in most instances significantly. The below chart shows the Developed Markets (ex. U.S.) Large-Cap asset class on a free cash flow yield basis as at the end of the quarter:



Generally, change helps us. During periods of great change, there are winners and losers (more dispersion than average), and the outcomes and implications are often misunderstood. Misunderstood situations are core to our process and thus these periods often increase our opportunity set as risk aversion drives down prices and makes valuations cheaper.

Lastly, while the world turns, our strategy remains steadfastly focused on investing in individual companies that we expect to produce strong cash flows in excess of expectations.

Given the continued outperformance of international markets, and given the strategy's very strong track record, the current highly attractive starting point with a still steep valuation discount for the asset class and the strong portfolio, the team recently added yet again significantly to their personal holdings in the strategy.

Portfolio Highlights

At quarter-end, the portfolio was invested in 39 stocks in 13 countries. Our top five country weightings (portfolio weighting versus the MSCI EAFE Index) at the end of the quarter were Germany (24.4% vs. 10.1%), United Kingdom (18.3% vs. 15.2%), Japan (14.9% vs. 21.7%), Switzerland (11.3% vs. 10.0%), and Sweden (6.9% vs. 3.7%). On a sector basis, the portfolio was overweight communication services (8.4% vs. 5.0%) and underweight consumer staples (2.3% vs. 8.5%).

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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