Oberweis Asset Management

MICRO-CAP GROWTH STRATEGY

4Q 2016

The Year and Quarter in Review

2016 was a strong year for the Oberweis Micro-Cap Composite, which returned 26.24% versus 11.32% for the benchmark Russell 2000 Growth Index, an outperformance of 1,492 basis points. The Composite also outperformed the Russell Microcap Growth Index in 2016 by 1,938 basis points. During the fourth quarter, the Composite returned 7.94% versus 3.57% for the Russell 2000 Growth Index and 1.46% for the Russell Microcap Growth Index, an outperformance of 437 and 648 basis points, respectively.

We will remember 2016 simply as a strange year, and we're not even talking about the Chicago Cubs winning the World Series. From the surprising Brexit vote in June to Donald Trump's unlikely victory in November, 2016 was a year when the unexpected actually happened. Even more surprising was the reaction in the equity markets to each of these profound events – in both cases the expectation for extreme market volatility following the event proved surprisingly short-lived. In fact, the U.S. stock market's action following the election has been nothing short of amazing given the potential uncertainty surrounding Donald Trump's policies, his questionable willingness and ability to work with others, and his lack of political experience.

At the macro level, 2016 will go down as a relatively benign year in the markets where predicted volatility never really materialized, except for a brief rout early in the year that was entirely recouped by March. The U.S. dollar continued to appreciate against foreign currencies, albeit at a lesser rate than in 2015. Commodities like oil, copper, and steel bottomed early in the year, stopping a multi-year slide, and lead to a rally in commodity-oriented and economically-sensitive stocks. Interest rates, as measured by the 10-year US Treasury bond, bottomed at 1.3% in early July following a Brexit-inspired flight to quality. Yields spiked to over 2.6% in December as investors discounted the possibility of additional deficit spending and inflation under a Trump administration. The Federal Reserve raised interest rates by 25 basis points in December and hinted that additional hikes are likely in 2017.

Our strong performance in 2016 was even more remarkable considering that value stocks dominated the investing landscape, demonstrating the idiosyncratic nature of our micro-cap portfolio and highlighting our strength as stock pickers in a suboptimal style environment. Growth stocks trailed value stocks by an extraordinary 2,042 basis points in 2016 and by 1,050 basis points during the fourth quarter alone as financials and companies seen to benefit from fiscal stimulus rallied following Trump's victory. For micro-cap stocks, the disparity for 2016 was nearly 2,400 basis points. Sector performance was a headwind; the top three performing sectors within the benchmark during the year – materials, producer durables, and financials – accounted for an average weight of only 26.9% of the portfolio versus 32.8% for the index. Not surprisingly in a value-dominated year, the top two quintiles of sales growth within the benchmark – our typical fishing pond – performed the worst. Despite these headwinds, our stock selections added value in every single sector (with the exception of materials) during the year; our picks in healthcare, technology, and energy were particularly noteworthy and added the most value.

The biggest headwind in 2016 was the poor relative returns of companies with the strongest positive earnings revisions. Our portfolio is comprised of companies that have strong fundamentals driving earnings in excess of expectations and upward estimate revisions. The market typically rewards such characteristics with rising prices. Research by Empirical Research Partners, however, suggests that the best quintile of earnings revision companies (the most positive revisions) underperformed the worst quintile (the most negative revisions) by over 700 basis points in 2016, continuing a trend that began in the middle of 2015. The long-term data from ERP suggest the opposite is the norm, and that higher estimate revisions are usually positive for portfolio performance. We view this as a short-term aberration and are confident that better-than-expected earnings and positive revisions will again become tailwinds to our portfolio.

Looking forward, the magnitude of the rally in the fourth quarter leads us to believe that investors are materially discounting a number of Trump administration policies, namely tax reform via corporate and individual rate cuts, simplification, and cash repatriation; fiscal stimulus; and reduced regulations, including the repeal and replacement of the Affordable Care Act. While we believe such policies could positively impact economic growth, the reality of what President-elect Trump is actually able to accomplish in 2017 – even with a Republican Congress – is likely to fall short of lofty expectations. We are also concerned that President-elect Trump's protectionist rhetoric regarding global trade, if it becomes the foundation for U.S. policy, could impact certain industries and companies in ways not currently appreciated by the market. Furthermore, the impact of Trump's policies on economic growth and corporate profitability is unlikely to materialize until late 2017 or early 2018 at the earliest. Such disappointments relative to current assumptions could lead to increased levels of market volatility in the first half of this year.

Instead of placing bets on shifting political winds, our bottom-up strategy has always been focused on buying individual businesses, seeking out innovative companies with idiosyncratic attributes that afford the potential to drive earnings growth at rates higher than market expectations. While the earnings multiples afforded in the market for such firms tend to oscillate from quarter to quarter, we believe that prudent stock selection of a diversified portfolio or companies with prospects for better-than-expected earnings growth is likely to outperform the broader market over time.

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Portfolio Highlights

As of December 31, 2016, the portfolio was 91.4% invested in 85 different positions. The portfolio had its largest weightings in technology (27.2% average weighting during the quarter versus 19.3% for the Russell 2000 Growth Index), healthcare (23.3% versus 21.2%), and consumer discretionary (14.7% versus 16.0%). The portfolio was most underweight materials (2.9% versus 9.2%), financial services (7.9% versus 11.7%), and producer durables (10.9% versus 14.1%).

In the fourth quarter, the portfolio benefited from favorable stock selection in healthcare (where our holdings returned 2.93% versus a –8.64% return for the benchmark's healthcare holdings), financial services (24.21% versus 10.55%), and energy (14.41% versus –3.93%).

PORTFOLIO CHARACTERISTICS
(AS OF DECEMBER 31, 2016)

Number of Stocks	85
Weighted Market Capitalization (in millions)	$766
Median Market Capitalization (in millions)	$576
P/E Forward 4 Quarters (estimated)	19.5x
Long-Term Future EPS Growth Rate (estimated)	11.0%
Long-Term Debt to Total Equity	11.0%
Return on Equity	4.0%
Cash Position	8.6%
Portfolio Turnover (2016)	102.0%

Source: Thomson Reuters Eikon

Key Benefits

The Micro-Cap Growth strategy seeks to capitalize on the exceptional growth potential of companies in the early stages of their life cycle. The strategy invests in very small companies which, at the time of purchase, have a market capitalization of less than $600 million or are within the range of companies represented in the Russell Micro-Cap Growth Index, whichever is greater. These companies often boast exciting products and/or services driving organic revenue and earnings growth. Our fundamental research process is specifically designed to uncover such opportunities.

The key benefits of the Micro-Cap Growth strategy are:

- Access to one of the least efficient segments of the equity market
- Potential for significant alpha over a full market cycle
- Combines empirically-proven Behavioral Finance principles with the very best of fundamental bottom-up research
- Disciplined and repeatable investment process managed by a passionate and experienced investment team
- Fundamental research process specifically designed to efficiently discover micro-cap companies that are misunderstood by traditional Wall Street research analysts
- Exposure to micro-cap companies offering the potential for earnings growth that differs from consensus expectations
- Diversified portfolio with a focus on risk management

Minimum Account Size: $5 million for Institutional Account Management

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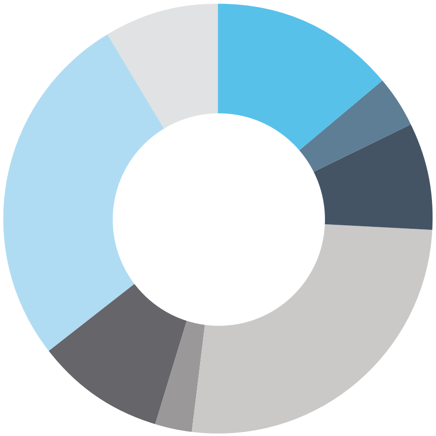
TOP TEN HOLDINGS *(as of December 31, 2016)*

	Company		Line of Business
1	Ceva, Inc.	2.3%	Licensor of DSP cores and integrated applications to the semiconductor industry
2	Del Taco Restaurants, Inc.	2.1%	Operates and franchisor of restaurants featuring fresh and fast made-to-order Mexican and American classic dishes
3	Glaukos Corp.	2.0%	Develops, manufactures, and markets medical devices for the treatment of glaucoma
4	Intralinks Holdings, Inc.	2.0%	Technology provider of software-as-a-services (SaaS) solutions for secure enterprise content collaboration
5	Heska Corp.	2.0%	Manufactures diagnostic tools, vaccines, and pharma-ceuticals for the companion animal market
6	Inphi Corp.	1.9%	Provides high-speed analog semiconductor solutions for the communications and computing markets
7	Patrick Industries, Inc.	1.9%	Manufactures and distributes building products and components for RV and manufactured home industries
8	AMN Healthccare Services	1.9%	Offers healthcare workforce solutions and staffing serv-vices to healthcare facilities
9	Ultra Clean Holdings	1.7%	Designs, engineers and manufactres production tools, modules and subsystems
10	Central Garden & Pet Co.	1.7%	Market and producer of branded products in the pet and lawn & garden supplies industry

Top 10 holdings as a percentage of Total Net Assets. Portfolio Holdings are subject to change at any time. References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable. Source: Thomson Reuters Eikon

SECTOR WEIGHTINGS *(as of December 31, 2016)*

Consumer Discretionary	14.0%
Consumer Staples	0.0%
Energy	4.0%
Financial Services	8.0%
Health Care	26.0%
Materials & Processing	2.8%
Producer Durables	9.7%
Technology	26.9%
Utilities	0.0%
Cash	8.6%
Total	100.0%



Sector weightings as a percentage of Total Net Assets. Source: Thomson Reuters Eikon

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AVERAGE ANNUAL TOTAL RETURNS ***(as of December 31, 2016)***

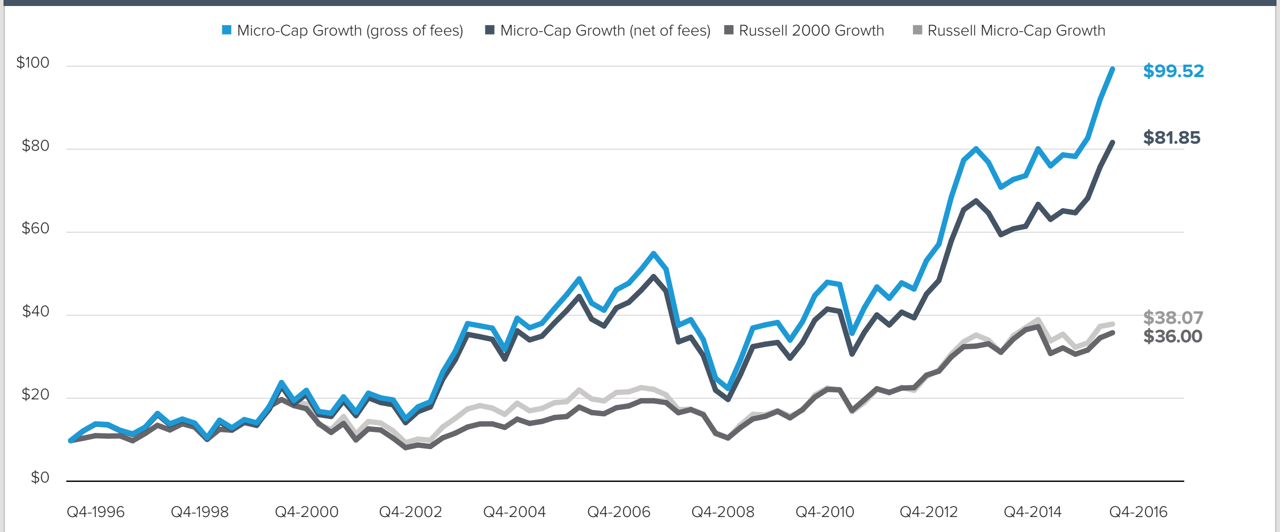
	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 1/1/1996
Micro-Cap Growth (gross of fees)	**7.94%**	**26.24%**	**8.66%**	**18.79%**	**7.95%**	**11.59%**
Micro-Cap Growth (net of fees)	**7.77%**	**25.24%**	**7.65%**	**17.77%**	**6.91%**	**10.55%**
Russell Microcap Growth Index	1.46%	6.86%	2.33%	13.53%	5.31%	N/A
Russell 2000 Growth Index	3.57%	11.32%	5.05%	13.74%	7.76%	6.54%

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 million. Performance results, from 1-1-96 until 12-31-03 and 9-1-11 to present were derived solely from the performance of the Oberweis Micro-Cap Fund, a registered, open-end mutual fund, for which OAM serves as investment adviser. Prior to November 4, 2001, James D. Oberweis was the sole portfolio manager for the Micro-Cap Fund during the period of the performance results noted. Accounts are dollar-weighted within the composite and reported in U.S. dollars.

The Russell 2000 Index measures the performance of approximately 2,000 companies with small-market capitalizations. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted earnings growth rates. The Russell Microcap Growth Index measures the performance of those Russell Micro Cap companies with higher price-to-book ratios and higher forecasted growth values. The performance data includes reinvested dividends. The Russell Microcap Index is represented by the smallest 1,000 securities in the small cap Russell 2000 Index plus the next 1,000 securities. Each index is an unmanaged group of stocks, whose performance does not reflect the deduction of fees, expenses or taxes.

Advisory fees are disclosed in Part II of Form ADV. Performance is historical and includes the reinvestment of dividends and other income. Past performance is not necessarily indicative of future results.

GROWTH OF $10,000 — WITH INCOME INVESTED ***(January 1, 1996–December 31, 2016)***



The Russell Microcap Growth Index began on 7/3/00, and the line graph for the Index begins at the same value as the Fund on that date.

The Oberweis Aperture

Our unique, highly disciplined investment approach includes a series of eight criteria to focus our research efforts.

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Oberweis Asset Management, Inc.

Recognized as a leading small-cap stock specialist, Oberweis has been helping institutional investors manage their assets prudently and effectively for many years.

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