Oberweis
Asset Management

SMALL-CAP OPPORTUNITIES STRATEGY

4Q 2016

The Quarter and Year in Review

The Oberweis Small-Cap Opportunities Composite returned 9.38% versus 11.32% for the benchmark Russell 2000 Growth Index in 2016, a shortfall of 194 basis points. During the fourth quarter, the Composite returned 4.93% versus 3.57% for the Russell 2000 Growth Index, an outperformance of 136 basis points.

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 which 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 leading to a rally in commodity-oriented and economically-sensitive stocks. Interest rates, as measured by the 10-year U.S. 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 performance in 2016 was hampered by multiple style headwinds that proved difficult to fully overcome via stock selection. 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, a substantial obstacle for a portfolio more growthy than the benchmark with large exposures in technology, healthcare (the worst performing sector in the benchmark this year), and consumer discretionary . Sector performance was also a headwind: we were underweight the top three performing sectors -- materials, producer durables, and financials – in 2016. Not surprisingly in a value-dominated year, the top two quintiles of sales growth within the benchmark – our typical fishing pond – performed the worst.

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.

[1] In 2016, the Russell 2000 Growth returned 11.32% and the Russell 2000 Value returned 31.74%. In the fourth quarter, the Russell 2000 Growth returned 3.57% and the Russell 2000 Value returned 14.07%.

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Portfolio Highlights

As of December 31, 2016, the portfolio was 92.4% invested in 71 different positions. The portfolio had its largest weightings in technology (31.5% average weighting during the quarter versus 19.3% for the Russell 2000 Growth Index), healthcare (16.6% versus 21.2%), and consumer discretionary (14.3% versus 16.0%). In addition to healthcare, the portfolio was most underweight materials (4.0% versus 9.2%) and producer durables (9.9% versus 14.1%).

In the fourth quarter, performance was positively impacted by stock selection in healthcare (where our holdings returned -1.96% versus a -8.64% return for the benchmark's healthcare holdings), financial services (18.12% versus 10.55%), and producer durables (16.43% versus 9.12%).

PORTFOLIO CHARACTERISTICS
(AS OF DECEMBER 31, 2016)

Number of Stocks	71
Weighted Market Capitalization (in millions)	$2,121
Median Market Capitalization (in millions)	$1,839
P/E Forward 4 Quarters (estimated)	23.6x
Long-Term Future EPS Group Rate (estimated)	14%
Long-Term Debt to Total Equity	13%
Return on Equity	7%
Cash Position	7.6%
Portfolio Turnover (2016)	150%

Source: Thomson Reuters Eikon

Key Benefits

The Small-Cap Opportunities strategy seeks to capitalize on the exceptional growth potential of smaller companies that are often misunderstood by traditional Wall Street research analysts. The Small-Cap Opportunities strategy generally invests in companies (with market capitalizations under $5.0 billion at the time of purchase) where our expectations for earnings growth differ from consensus expectations. These companies often boast exciting products and/or services, a strong and sustainable competitive position, and the potential for upward revisions in earnings expectations in the future. Our fundamental research process is specifically designed to efficiently identify such opportunities.

The key benefits of the Small-Cap Opportunities strategy are:

- 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 smaller cap companies that are misunderstood by traditional Wall Street research analysts
- Exposure to smaller 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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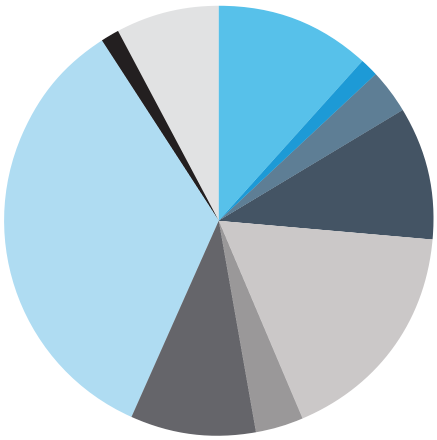
TOP TEN HOLDINGS *(as of December 31, 2016)*

	Company		Line of Business
1	Children's Place	2.4%	Retails value-priceed apparel and accessories for babies and children up to 12 years old
2	CEVA, Inc.	2.3%	Licensor of DSP cores and integrated applications to the semiconductor industry
3	Applied Optoelectronics, Inc.	2.2%	Manufactures advanced optical semiconductor devices
4	Inphi Corp.	2.2%	Provides hish-speed analog semiconductor solutions for the communications and computing markets
5	Glaukos Corp.	2.2%	Ophthalmic medical technology company
6	LogMeIn, Inc.	2.1%	Offers on-demand, remote connectivity services to small-and mid-size businesses and IT services providers
7	Patrick Industries, Inc.	2.0%	Manufactures and distributes building products and components for RV and manufactured home industries
8	Itron, Inc.	1.9%	Provides standard and smart metering systems
9	Del Taco Restaurants, Inc.	1.9%	Operates and franchisor of restaurants featuring fresh and fast made-to-order Mexican and American classic dishes
10	Tenneco, Inc.	1.9%	Producer of clean air and ride performance products and systems for light vehicle, commercial truck, off-highway and other vehicle applications

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	11.8%
Consumer Staples	1.4%
Energy	3.2%
Financial Services	10.0%
Health Care	17.3%
Materials & Processing	3.6%
Producer Durables	9.4%
Technology	34.3%
Utilities	1.4%
Cash	7.6%
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 (9/15/1996)**
Small-Cap Opportunities (gross of fees)	**4.93%**	**9.38%**	**4.14%**	**13.44%**	**7.46%**	**8.25%**
Small-Cap Opportunities (net of fees)	**4.77%**	**8.95%**	**3.57%**	**12.78%**	**6.71%**	**7.47%**
Russell 2000 Growth Index	3.57%	11.32%	5.05%	13.74%	7.76%	6.37%

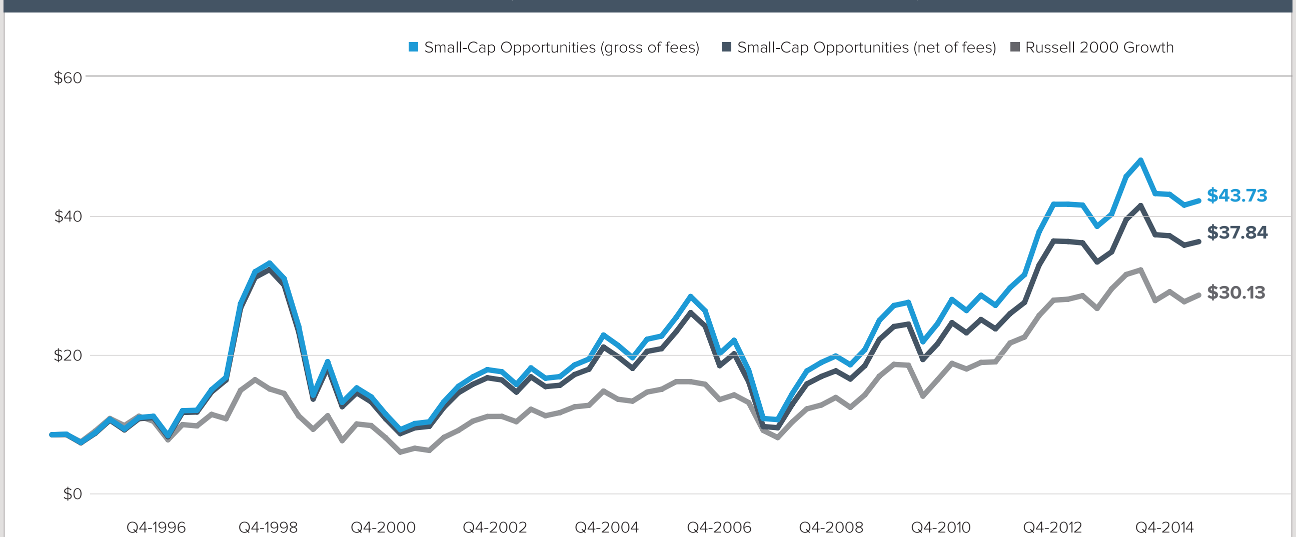
Oberweis Asset Management, Inc. ("OAM") is an independent investment management firm that is not affiliated with any parent organization. The composite returns are comprised of all fully discretionary accounts with a minimum value of $2.5 million. Performance results, from 1-1-97 to 12-31-03 and from 7-1-08 to present, are derived solely from the performance of the Oberweis Small-Cap Opportunities Fund (formerly known as the Oberweis Mid-Cap Fund), a registered open-end mutual fund, for which OAM serves as investment adviser. Accounts are dollar-weighted within the composite and reported in U.S. dollars.

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 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.

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. The Oberweis Funds invest in rapidly growing smaller and medium sized companies which may offer greater return potential. However, these investments often involve greater risks and volatility. There is no guarantee that the portfolios can achieve their objectives. The Oberweis Funds are distributed by Oberweis Securities, Inc. Member: FINRA & SIPC.

GROWTH OF $10,000 — WITH INCOME INVESTED ***(September 15, 1996–December 31, 2016)***



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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