

## CONCENTRATED SMALL-CAP GROWTH STRATEGY

1Q 2017

### The Quarter in Review

The Oberweis Concentrated Small-Cap Growth Composite returned 8.41% (8.27% net of fees) during the March quarter versus a 5.35% return for the benchmark Russell 2000 Growth Index, an outperformance of 306 basis points (292 basis points net of fees).

Portfolio performance was favorable despite some style cross-winds during the quarter. On the positive side, small-cap growth stocks outperformed small-cap value stocks by some 548 basis points<sup>1</sup>, and companies with higher growth rates within the benchmark itself – those in the highest two quintiles based on sales growth – performed the best. On the negative side, “small-cap” was the worst performing of seven style factors as large-cap stocks performed better<sup>2</sup>. Additionally, the two best performing GICS sectors during the quarter were healthcare and materials. Much of the healthcare return was driven by a 20% return in biotech stocks, which comprise approximately 9% of the benchmark. We lack direct biotech exposure and also had no investments in the materials sector.

The strength in equities was not limited to U.S. small caps as global equities rallied broadly during the quarter. In fact, emerging markets and developed markets international equities were among the strongest asset classes, while commodities were lower and fixed income<sup>3</sup> posted only a nominally positive return. The Federal Reserve raised its Fed Funds target by 25 basis points for the second time in three meetings in March, although its pace of tightening in this cycle (three hikes in 16 months) ranks as the slowest since the 1970’s. We expect the Fed to deliver another two to three increases over the rest of the year, continuing its measured pace relative to historical tightening cycles. While additional hikes might increase angst among equity investors, history suggests that when U.S. 10-year bond yields are below 5% (it closed the quarter at 2.4%), rising rates have historically been associated with rising stock prices<sup>4</sup>. Only when yields eclipse 6% is there typically a negative correlation between yield movements and stock returns.

Those in the mainstream financial media have labeled the recent run in stocks the “Trump Rally,” and while we think his pro-business, anti-regulation posture has surely had an impact on business confidence and equity prices, the data suggest that global economies began to improve even before the U.S. election in November. Manufacturing PMI’s accelerated in the U.S., Canada, the Eurozone, Australia, and Japan last autumn, a trend that has continued into the first quarter of 2017. Additionally, the U.S. consumer is confident and healthy: U.S. consumer sentiment, as measured by the University of Michigan, reached its highest level since February 2007, and the household debt service ratio remains at historically low levels. U.S. housing, despite higher mortgage rates, also remains at historically affordable levels, and housing starts are still below average, suggesting strength in the housing market – a key economic driver – could be sustainable for some time.

The result: analysts are expecting accelerating S&P 500 earnings in 2017, driven by strengthening global economies and a return to positive earnings in the U.S. energy sector. We believe the sustainability of the rally will depend on the materialization of this anticipated growth and President Trump’s ability to implement substantive tax reform, reduced regulations, and fiscal stimulus. His recent failure to repeal and replace the Affordable Care Act was a warning sign that the market may be overestimating the potential for change. We believe tax reform in particular will be incredibly complex and some suggested reforms, such as a border adjustment tax, will be politically polarizing, even more so than healthcare.

Meanwhile, equity valuations are mixed. While our universe P/E remains at average levels, broader equity market valuations (as measured by the S&P 500 P/E) are above-average and much higher than those seen post-financial crisis in 2011-2012, although lower than the “equity bubble” levels witnessed from 1998-2000. Our take is that we probably need to see material tax reform and continued economic growth to justify today’s premium equity valuations, particularly for large-caps.

As always, rather than ruminate about politics or unpredictable macro factors, our strategy focuses on investing in individual businesses with idiosyncratic attributes that can lead to earnings growth in excess of consensus expectations. While the earnings multiple the market is willing to pay for such businesses can oscillate in the short-term, we believe the prudent selection of such companies in a diversified portfolio will lead to performance that exceeds the benchmark over long periods of time.

<sup>1</sup>The Russell 2000 Value Index returned -0.13% during the quarter.

<sup>2</sup>The Russell 1000 Growth Index returned 8.91% during the quarter.

<sup>3</sup>As measured by the Barclays Aggregate

<sup>4</sup>Source: JP Morgan’s “Guide to the Markets, 2Q17”, page 17.

## Portfolio Highlights

As of March 31, 2017, the portfolio was 93.2% invested in 34 different positions. The portfolio had its largest weightings in technology (33.0% average weighting during the quarter versus 19.4% for the Russell 2000 Growth Index), health care (30.8% versus 21.6%), and consumer discretionary (11.7% versus 16.1%). The portfolio was most underweight producer durables (2.8% versus 14.5%), materials (0.0% versus 10.0%), and financial services (6.4% versus 12.4%).

In the first quarter the portfolio benefited from favorable stock selection in consumer discretionary (where our holdings returned 12.86% versus a 2.41% return for the benchmark's consumer discretionary holdings).

Some of the top performers during the first quarter included: Tal Education (TAL), which returned +52% and contributed 103 basis points to portfolio return; Glaukos (GKOS), which returned +50% and contributed 102 basis points to portfolio return; and Heska (HСКА), which returned +47% and contributed 99 basis points to portfolio return. In contrast, some of the leading detractors for the quarter included: Gigamon (GIMO), which returned -31% and detracted 178 basis points from portfolio return; Nautilus (NLS), which returned -16% and detracted 38 basis points from portfolio return; and China Biologic Products (CBPO), which returned -7% and detracted 15 basis points from portfolio return.

### PORTFOLIO CHARACTERISTICS

(AS OF MARCH 31, 2017)

Number of Stocks	34
Weighted Market Capitalization (in millions)	\$3,132
Median Market Capitalization (in millions)	\$2,160
P/E Forward 4 Quarters (estimated)	28.3x
Long-Term Future EPS Growth Rate (estimated)	20%
Long-Term Debt to Total Equity	13.8%
Return on Equity	9.0%
Cash Position	6.8%
Portfolio Turnover (2016)	46.9%

Source: Thomson Reuters Eikon

## Key Benefits

The Concentrated Small-Cap Growth captures and highlights our domestic investment team's stock selection skill over a full market cycle by investing in the 25-35 highest conviction ideas from our domestic smaller-cap growth strategies. This strategy helps investors capitalize on the exceptional growth potential of fast-growing emerging companies in the rapid expansion phase of their lifecycle. The Concentrated Small-Cap Growth strategy generally invests in companies with market capitalizations under \$5 billion at the time of purchase.

The key benefits of the Concentrated Small-Cap Growth strategy are:

- Exposure to our team's 25-35 highest conviction ideas
- Potential for significant alpha over a full market cycle
- Emphasizes rapidly growing smaller-cap companies in the most dynamic phase of their development
- Disciplined and repeatable investment process managed by a passionate and experienced investment team
- Fully invested portfolio - no market timing

**Minimum Account Size: \$5 million for Institutional Account Management**

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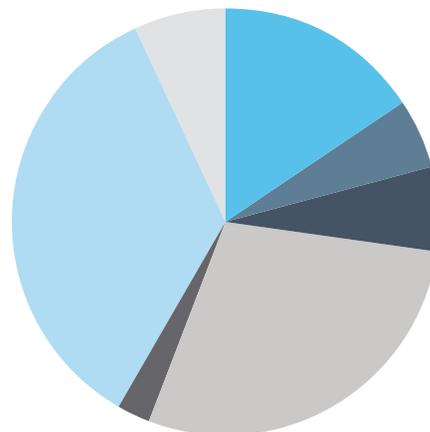
**TOP TEN HOLDINGS (as of March 31, 2017)**

Company		Line of Business
1	Inphi Corp.	5.5% Provides high-speed analog semiconductor solutions for the communications and computing markets
2	LogMeIn, Inc.	4.4% Provides a portfolio of cloud-based service offerings, which helps people and businesses to connect to their workplace, colleagues and customers
3	Inogen, Inc.	4.2% Develops, manufactures and markets portable oxygen concentrators for patients suffering from chronic respiratory conditions
4	Applied Optoelectronics, Inc.	4.1% Manufactures advanced optical semiconductor devices
5	Ceva, Inc.	3.9% Licensor of DSP cores and integrated applications to the semiconductor industry
6	Glaukos Corp.	3.8% Develops treatments for glaucoma
7	Eagle Bancorp, Inc.	3.5% Bank holding company that offers commercial banking services to businesses and professional clients and consumer banking to individuals
8	Diamondback Energy, Inc.	3.3% Independent oil and natural gas company focused on acquisition, development, exploration and exploitation of onshore oil and gas reserves in the Permian Basin in West Texas
9	VCA, Inc.	3.1% Operates a chain of veterinary clinics and diagnostic labs
10	Monolithic Power Systems	3.0% Develops high performance power solutions

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 March 31, 2017)**

Consumer Discretionary	15.8%
Consumer Staples	0.0%
Energy	5.1%
Financial Services	6.3%
Health Care	28.6%
Materials & Processing	0.0%
Producer Durables	2.6%
Technology	34.7%
Utilities	0.0%
Cash	6.8%
<b>Total</b>	<b>100.0%</b>



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

**AVERAGE ANNUAL TOTAL RETURNS (as of March 31, 2017)**

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 5/1/2002
<b>Concentrated Small-Cap Growth (gross of fees)</b>	<b>8.41%</b>	<b>23.71%</b>	<b>2.32%</b>	<b>8.52%</b>	<b>8.78%</b>	<b>9.89%</b>
<b>Concentrated Small-Cap Growth (net of fees)</b>	<b>8.27%</b>	<b>23.03%</b>	<b>1.75%</b>	<b>7.84%</b>	<b>8.18%</b>	<b>9.31%</b>
Russell 2000 Growth Index	5.35%	23.03%	6.72%	12.10%	8.06%	8.15%

Oberweis Asset Management, Inc. ("OAM") is an independent investment management firm that is not affiliated with any parent organization. The composite includes all fully discretionary accounts which invest at least 70% of their assets in the securities of U.S. traded companies with a market capitalization between \$100 million and \$2.5 billion at the time of investment. Beginning October 2010, the composite includes accounts managed with similar investment objectives that charge a bundled fee for investment advisory and administrative services. Effective January 1, 2008, portfolios with a market value of under \$5 million will be included in the composite. Prior to January 1, 2008, the minimum market value for portfolios to be included in a composite was \$5 million. From inception to 12-31-10, the composite name was Concentrated Smid-Cap Growth Equity. 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.

**GROWTH OF \$10,000 — WITH INCOME INVESTED (May 1, 2002 – March 31, 2017)**


## 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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