Oberweis
Asset Management

MICRO-CAP GROWTH STRATEGY

1Q 2017

The Quarter in Review

The Oberweis Micro-Cap Growth Composite returned 7.75% (7.50% net of fees) during the March quarter versus a 5.35% return for the benchmark Russell 2000 Growth Index, an outperformance of 240 basis points (215 basis points net of fees). Versus the Russell Microcap Growth Index, which returned 2.63%, the Composite exceeded the benchmark by 512 basis points (487 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[1], 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 and micro-cap stocks, particularly those with market caps less than $500 million, were the worst performing stocks within the Russell 2000 Growth Index. Additionally, although healthcare was the best performing sector, much of the healthcare return was driven by a 20% return in biotech stocks, which comprise approximately 9% of the Russell 2000 Growth Index. We lack material biotech exposure in the portfolio.

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[2] 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[3]. 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.

[1] The Russell 2000 Value Index returned –0.13% during the quarter.
[2] As measured by the Barclays Aggregate
[3] Source: JP Morgan's "Guide to the Markets, 2Q17", page 17.

Oberweis Asset Management

MICRO-CAP GROWTH

1Q 2017

Portfolio Highlights

As of March 31, 2017, the portfolio was 95.1% invested in 90 different positions. The portfolio had its largest weightings in technology (29.5% average weighting during the quarter versus 19.4% for the Russell 2000 Growth Index), health care (24.6% versus 21.6%), and consumer discretionary (12.8% versus 16.1%). The portfolio was most underweight materials (3.1% versus 10.0%), financial services (7.5% versus 12.4%), and producer durables (11.1% versus 14.5%).

In the first quarter the portfolio benefited from favorable stock selection in technology (where our holdings returned 19.86% versus a 6.98% return for the benchmark's technology holdings), while performance was negatively impacted by stock selection in health care (9.65% versus 13.23%), driven mainly by our lack of biotech industry exposure.

PORTFOLIO CHARACTERISTICS
(AS OF MARCH 31, 2017)

Number of Stocks	90
Weighted Market Capitalization (in millions)	$788
Median Market Capitalization (in millions)	$635
P/E Forward 4 Quarters (estimated)	20.0x
Long-Term Debt to Total Equity	7.7%
Return on Equity	7.0%
Cash Position	4.9%
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

For more information please contact:
Brian K. Lee
Oberweis Asset Management, Inc.
3333 Warrenville Rd., Suite 500, Lisle, IL 60532
(800) 323-6166 | (630) 577-2321 | brian.lee@oberweis.net

Oberweis
Asset Management

MICRO-CAP GROWTH

1Q 2017

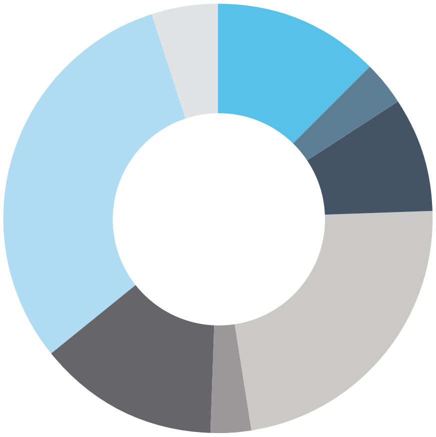
TOP TEN HOLDINGS *(as of March 31, 2017)*

	Company		Line of Business
1	Applied Optoelectronics, Inc.	3.5%	Manufactures advanced optical semiconductor devices
2	Glaukos Corp.	2.6%	Develops, manufactures, and markets medical devices for the treatment of glaucoma
3	Ceva, Inc.	2.1%	Licensor of DSP cores and integrated applications to the semiconductor industry
4	American Xtal Technology	2.0%	Producer of high-performance semiconductor substrates
5	Inphi Corp.	2.0%	Provides high-speed analog semiconductor solutions for the communications and computing markets
6	Del Taco Restaurants Inc.	1.8%	Operates and franchisor of restaurants featuring fresh and fast made-to-order Mexican and American classic dishes
7	Heska Corp.	1.8%	Manufactures diagnostic tools, vaccines, and pharmaceuticals for the companion animal market
8	Ultra Clean Holdings	1.7%	Supplies subsystems used in semiconductor capital equipment
9	Extreme Networks, Inc.	1.7%	Provides software-driven networking solutions
10	Nutrisystem, Inc.	1.7%	Operates a weight-management program

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	12.5%
Consumer Staples	0.0%
Energy	3.4%
Financial Services	8.7%
Health Care	22.9%
Materials & Processing	3.2%
Producer Durables	13.6%
Technology	30.8%
Utilities	0.0%
Cash	4.9%
Total	100.0%



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

MICRO-CAP GROWTH

1Q 2017

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

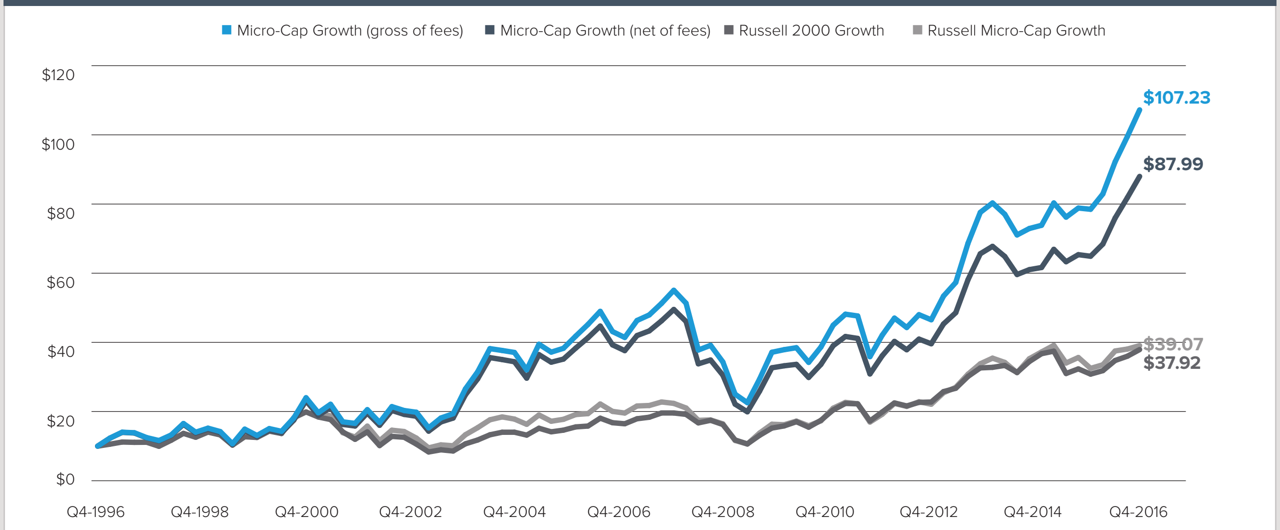
	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 1/1/1996
Micro-Cap Growth (gross of fees)	**7.75%**	**36.64%**	**10.11%**	**17.92%**	**8.38%**	**11.84%**
Micro-Cap Growth (net of fees)	**7.50%**	**35.58%**	**9.09%**	**16.91%**	**7.34%**	**10.79%**
Russell Microcap Growth Index	2.63%	20.24%	1.62%	10.72%	5.51%	N/A
Russell 2000 Growth Index	5.35%	23.03%	6.72%	12.10%	8.06%	6.72%

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–March 31, 2017)***



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.

READ MORE

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.

MEET THE TEAM