Oberweis
Asset Management

SMALL-CAP OPPORTUNITIES STRATEGY

1Q 2017

The Quarter in Review

The Oberweis Small-Cap Opportunities Composite returned 9.27% (9.08% net of fees) during the March quarter versus a 5.35% return for the benchmark Russell 2000 Growth Index, an outperformance of 392 basis points (373 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 as large-cap stocks performed better[2]. 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[3] 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[4]. 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] The Russell 1000 Growth Index returned 8.91% during the quarter.
[3] As measured by the Barclays Aggregate
[4] Source: JP Morgan's "Guide to the Markets, 2Q17", page 17.

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Portfolio Highlights

As of March 31, 2017, the portfolio was 98.5% invested in 76 different positions. The portfolio had its largest weightings in technology (32.0% average weighting during the quarter versus 19.4% for the Russell 2000 Growth Index), health care (17.1% versus 21.6%), and consumer discretionary (14.5% versus 16.1%). In addition to health care, the portfolio was most underweight materials (5.6% versus 10.0%) and financial services (8.6% versus 12.4%).

In the first quarter performance was positively impacted by stock selection in technology (where our holdings returned 16.79% versus a 6.98% return for the benchmark's technology holdings), consumer discretionary (12.21% versus 2.41%), and financials (8.33% versus 2.89%). Performance was hindered by our selections in materials, where our holdings returned 0.05% versus 6.17% for the benchmark.

PORTFOLIO CHARACTERISTICS

(AS OF MARCH 31, 2017)

Number of Stocks	76
Weighted Market Capitalization (in millions)	$2,564
Median Market Capitalization (in millions)	$2,209
P/E Forward 4 Quarters (estimated)	19.5x
Long-Term Future EPS Group Rate (estimated)	15%
Long-Term Debt to Total Equity	13.2%
Return on Equity	6.0%
Cash Position	1.5%
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

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

SMALL-CAP OPPORTUNITIES

1Q 2017

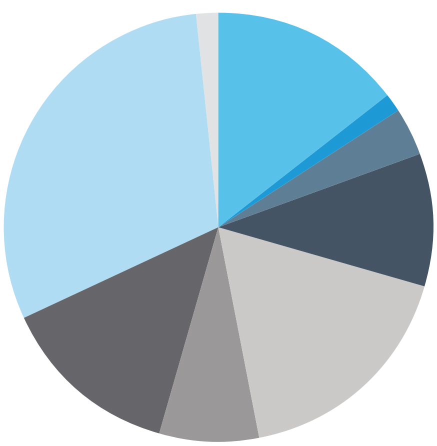
TOP TEN HOLDINGS *(as of March 31, 2017)*

	Company		Line of Business
1	Applied Optoelectronics, Inc.	3.2%	Manufactures advanced optical semiconductor devices
2	Glaukos Corp.	3.0%	Ophthalmic medical technology company
3	Trex Company, Inc.	2.5%	Manufactures non-wood decking products
4	Lumentum Holdings, Inc.	2.3%	Supplies optical and photonic products
5	Coherent, Inc.	2.2%	Manufactures laser-based photonic products
6	Children's Place	2.1%	Retails value-priced apparel and accessories for babies and children up to 12 years old
7	Burlington Stores, Inc.	2.0%	Operates a clothing retail chain
8	Privatebancorp, Inc.	1.9%	Chicago-based bank
9	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
10	Cavium, Inc.	1.9%	Provides semiconductor processors that enable intelligent networking, communications, and security 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 March 31, 2017)*

Consumer Discretionary	14.5%
Consumer Staples	1.5%
Energy	3.5%
Financial Services	10.2%
Health Care	17.4%
Materials & Processing	7.4%
Producer Durables	13.7%
Technology	30.3%
Utilities	0.0%
Cash	1.5%
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 March 31, 2017)*	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception (9/15/1996)
Small-Cap Opportunities (gross of fees)	**9.27%**	**23.77%**	**7.26%**	**12.59%**	**8.22%**	**8.62%**
Small-Cap Opportunities (net of fees)	**9.08%**	**23.13%**	**6.68%**	**11.93%**	**7.45%**	**7.83%**
Russell 2000 Growth Index	5.35%	23.03%	6.72%	12.10%	8.06%	6.56%

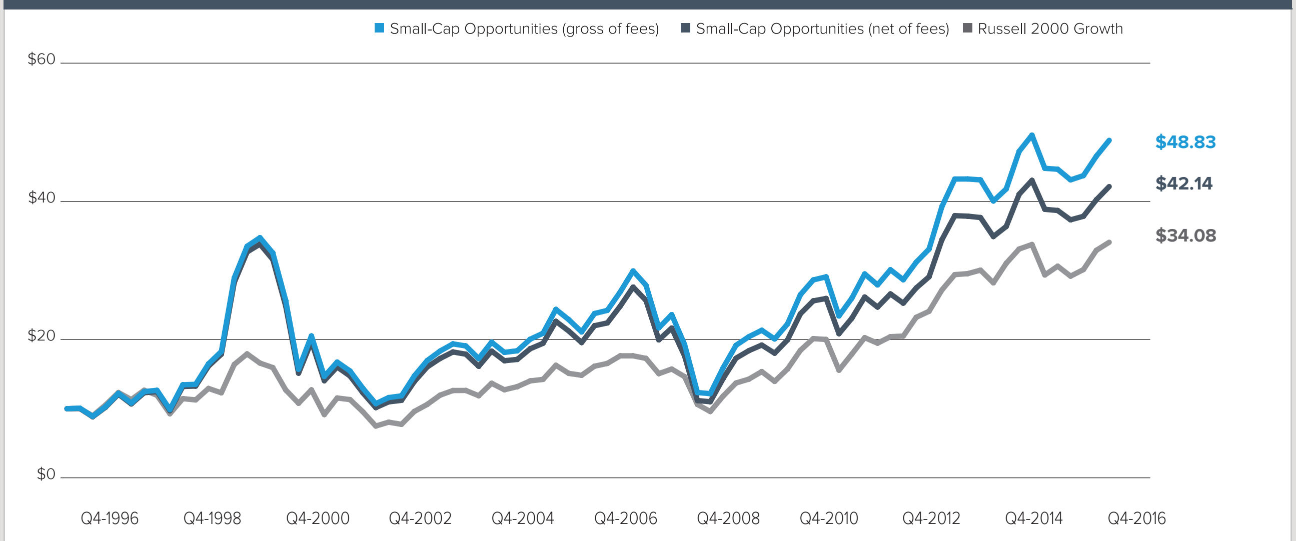
Oberweis Asset Management, Inc. ("OAM") is an independent investment management firm that is not affiliated with any parent organization. The composite returns are comprised of all fully discretionary accounts with a minimum value of $2.5 million. Performance results, from 1-1-97 to 12-31-03 and from 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–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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