Oberweis Asset Management

MICRO-CAP GROWTH STRATEGY

2Q 2017

The Quarter in Review

The Oberweis Micro-Cap Growth Composite returned 5.01% (4.79% net of fees) during the June quarter versus a 4.39% return for the benchmark Russell 2000 Growth Index, an outperformance of 62 basis points (40 basis points net of fees). Compared to the Russell Microcap Growth Index, which returned 5.29%, the Composite trailed the index by 28 basis points (50 basis points net of fees). Year-to-date, the composite returned 13.15% (12.65% net of fees) versus 9.97% for the Russell 2000 Growth Index and 8.07% for the Russell Microcap Growth Index, an outperformance of 318 basis points (268 basis points net of fees) and 508 basis points (458 basis points net of fees), respectively.

The portfolio was able to overcome numerous performance headwinds over the last three months. Although growth continued to outperform value[1], lower quality stocks led the way within the benchmark as the lowest ROE quintile and the highest P/E ratio quintile – plus the cohort of companies with no P/E's because they lack earnings – performed best during the quarter. The strength among low-quality stocks was particularly evident in the leadership demonstrated by biotechs, which returned 9.3% over the last three months and are responsible for nearly a quarter of the performance of the Russell 2000 Growth so far this year[2]. The best performing sectors within the Russell 2000 Growth Index during the quarter were Utilities, Healthcare (led by the aforementioned strength in biotech), and Real Estate; we are underweight all three sectors and lack meaningful exposure to biotech.

The strength in equities was broad-based globally during the first half of the year as economic growth and corporate earnings have accelerated world-wide, led by emerging markets such as China and India and developed markets including France and Germany. Manufacturing PMI's remained solidly above 50 in Canada, the Eurozone, Australia, Japan, and most emerging markets, signaling continued economic expansion. In the U.S., the PMI also remained above 50, while consumer confidence is at 10-year highs and wages are showing signs of increasing as unemployment flirts with structural cycle lows. Additionally, year-over-year headline inflation has accelerated globally and in the U.S. is around the Fed's 2% target, likely putting to rest the sustained fears of deflation that dogged global economies – particularly those in Europe – since the Global Financial Crisis.

Outside of equities, there were several notable moves in the second quarter that impacted stocks. Oil declined from nearly $54 per barrel in early April to nearly $42 in late June, causing Energy to be the worst-performing sector in the index during the quarter. Although the Federal Reserve increased rates for a fourth time in this tightening cycle in June, the yield on the 10-year U.S. Treasury actually fell since March 31, dragging the U.S. dollar – and financial stocks – lower. Lower yields may be a result of a flight to safety as investors seek shelter in response to rising tensions with North Korea and strained relations with Russia.

Meanwhile, U.S. equity valuations remain somewhat elevated but may be supported by improving corporate earnings. Broader market valuations, such as the S&P 500 P/E, are at above-average levels, although in fairness those P/E's are against a backdrop of sustained low interest rates that remain depressed relative to where they would normally be at this point in the cycle. Our universe P/E, which we've tracked since 2003, remains at average levels and is similar to the P/E's we've seen consistently since 2014. We think the market needs continued strength in economic indicators and corporate earnings and eventually corporate tax reform to justify current valuations, particularly those afforded more expensive large-cap stocks.

While mainstream market commentary is generally focused on those pricey large companies, we believe there are still reasons to be intrigued by small-cap growth stocks. First, evidence suggests that small-cap stocks tend to outperform large-caps during periods when the Federal Reserve is well into a tightening regime. According to research by Jefferies small-cap strategist Steven DeSanctis, small-caps traditionally outperform large-caps by over 300 basis points in the year following the fourth rate hike. Following the fifth hike, which we expect in the second half of 2017, that outperformance expands meaningfully to over 1,000 basis points in the subsequent year. Second, Mr. DeSanctis notes that small-cap growth stocks are still cheap relative to small-cap value stocks on several long-term valuation metrics, most notably price-to-cash flow, price-to-sales, and price-to-book value.

While macro factors can influence shorter time periods, we believe that investing in companies growing earnings beyond expectations results in superior investment performance over the long-term. Rather than ruminate about macro-economic indicators or geopolitical events, we focus on investing in individual businesses in which we believe something misunderstood or under-estimated is likely to drive earnings growth in excess of consensus expectations. While the multiple paid for such companies may oscillate in the short-run, we believe building portfolios populated with such companies leads to portfolio performance in excess of the benchmark over the long-term.

[1] The Russell 2000 Growth Index returned 4.39% for the June quarter and 9.97% year-to-date while the Russell 2000 Value Index returned 0.67% and 0.54%, respectively.
[2] Biotech stocks contributed 236 basis points of performance to the Russell 2000 Growth Index year-to-date. Source: Jefferies.

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Portfolio Highlights

As of June 30, 2017, the portfolio was 96.5% invested in 89 different positions. The portfolio had its largest weightings in technology (27.4% average weighting during the quarter versus 20.2% for the Russell 2000 Growth Index), healthcare (21.7% versus 21.9%), and producer durables (16.9% versus 14.0%). The portfolio was most underweight materials (3.8% versus 9.7%), consumer discretionary (12.0% versus 16.0%), and utilities (0.0% versus 2.4%).

In the second quarter the portfolio benefited from favorable stock selection in healthcare (where our holdings returned 14.5% versus a 9.9% return for the benchmark's health care holdings) and producer durables (6.1% versus 2.3%). Performance was negatively impacted by stock selection in consumer discretionary (-4.1% versus 2.4%).

PORTFOLIO CHARACTERISTICS
(AS OF JUNE 30, 2017)

Number of Stocks	89
Weighted Market Capitalization (in millions)	$898
Median Market Capitalization (in millions)	$663
P/E Forward 4 Quarters (estimated)	18.5x
Long-Term Debt to Total Equity	22.0%
Return on Equity	6.0%
Cash Position	0.0%
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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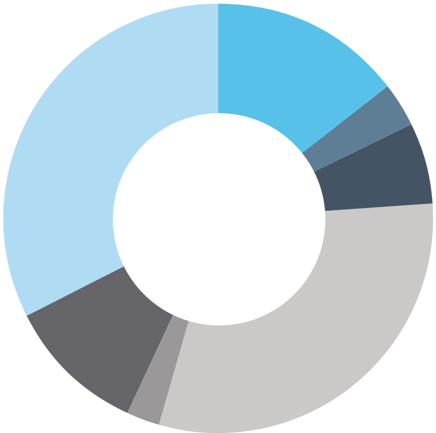
2Q 2017

TOP TEN HOLDINGS *(as of June 30, 2017)*			
	Company		**Line of Business**
1	Applied Optoelectronics, Inc.	2.7%	Manufactures advanced optical semiconductor devices
2	AXT, Inc.	2.1%	Producer of high-performance compounds used in semiconductors
3	Hudson Technologies	2.0%	Manufactures refrigerants and provides refrigerant reclamation services
4	Patrick Industries, Inc.	2.0%	Manufactures building materials used primarily by the recreational vehicle industry
5	Ceva, Inc.	1.9%	Licensor of DSP cores and integrated applications to the semiconductor industry
6	Carbonite, Inc.	1.8%	Provides cloud data protection services to consumers and businesses
7	Extreme Networks, Inc.	1.8%	Provides software-driven networking solutions
8	Glaukos Corp.	1.8%	Develops, manufactures, and markets medical devices for the treatment of glaucoma
9	OraSure Technologies	1.8%	Develops diagnostic tests used to detect infectious diseases
10	Cutera, Inc.	1.7%	Develops laser-based aesthetic products

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 June 30, 2017)*	
Consumer Discretionary	14.6%
Consumer Staples	0.0%
Energy	3.3%
Financial Services	6.1%
Health Care	30.5%
Materials & Processing	2.6%
Producer Durables	10.6%
Technology	32.3%
Utilities	0.0%
Cash	0.0%
Total	100.0%



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

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2Q 2017

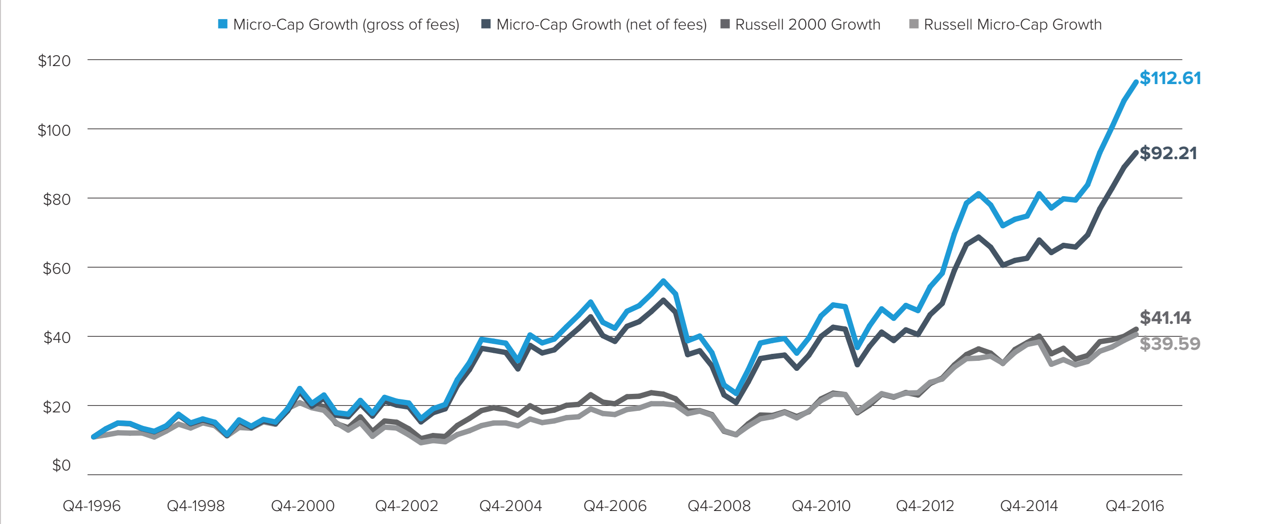
AVERAGE ANNUAL TOTAL RETURNS *(as of June 30, 2017)*	QTD	YRT	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 1/1/1996
Micro-Cap Growth (gross of fees)	**5.01%**	**13.15%**	**35.81%**	**13.49%**	**20.51%**	**8.18%**	**11.95%**
Micro-Cap Growth (net of fees)	**4.79%**	**12.65%**	**34.78%**	**12.46%**	**19.49%**	**7.15%**	**10.90%**
Russell Microcap Growth Index	5.29%	8.07%	22.71%	4.61%	12.76%	5.57%	N/A
Russell 2000 Growth Index	4.39%	9.97%	24.40%	7.64%	13.98%	7.82%	6.85%

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–June 30, 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.

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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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