

The Quarter in Review

The Russell 2000 Value Index returned 5.11% in the third quarter, for a year-to-date gain of 5.68%. Small-cap returns over the last two years reflect a tug-of-war between investor preferences for growth and value. In 2016, value was king, with the Russell 2000 Value Index trouncing the Russell 2000 Growth Index by a stunning 2042 bps. In the first nine months of 2017, the opposite pattern occurred, and small-cap value underperformed small-cap growth by over 1100 bps (16.8% for Russell 2000 Growth versus 5.7% for Russell 2000 Value). Since the market low for small-cap value on August 21st, the Russell 2000 Value Index has had an impressive run, gaining 10.30% through the third quarter and slightly outperforming the Russell 2000 Growth Index over that period.

Irrespective of large or small, growth or value, U.S. equity valuations are trending at above-average P/E levels. The forward P/E of the S&P 500 at 17.7x is higher than the October 2007 level (15.7x) but much lower than the March 2000 peak (27.2x). For the Russell 2000 Value Index, the average P/E of 25.8x¹ today is slightly more in-line compared to a 20-year average of 24.7x. Some argue that high multiples for the broader market are defensible in light of low interest rates, steadily improving GDP growth, and fiscal policy changes on the horizon. Tax reform (which probably will end up as “tax cuts”) and regulatory simplification could go a long way towards streamlining the process and cost of doing business in America.

Valuations may be at-risk, however, if the market’s potentially lofty expectations do not come to fruition. A major corporate tax cut would go a long way toward supporting today’s valuations, but there’s some risk it doesn’t happen to the magnitude expected, as already seen by the failed Republican attempt to repeal Obamacare. Secondly, low interest rates, which also bolster today’s premium valuations, could fall victim to further Fed increases, unexpected effects of the Fed’s balance sheet unwind, or even just unexpected inflation from a tight labor market. And thirdly, although economic growth data has been remarkably firm, any shortfall would certainly put the damper on stock prices. We aren’t asserting that any of these scenarios will come to pass. However, with expectations high, it’s worth noting that risk remains.

In our view, it is very hard - if not impossible - to time variables like growth/value style cycles, political trends, and even GDP. When these variables become the primary determinants of stock fluctuations, it becomes easier for us to find overlooked small-cap value stocks where true company values vary materially from market values. “True value” for small-cap stocks will ultimately be determined mostly by idiosyncratic factors – such as a company’s ability to deliver cash flows, realize assets values, develop successful products and execute strategic plans. In a macro-driven investment environment, particularly a negative one, investors pay less attention to stock-specific signaling events like insider buying and corporate repurchases. As disciplined value investors, our job is to look through the macro noise and remain laser-focused on out-of-favor small-cap equities with positive management signaling.

With respect to market trends, we tend to take a contrarian approach and, as mentioned, believe that retail may hold the greatest near term opportunity. Much negativity has already come off the auto industry with companies from parts manufacturers to dealers recovering earlier losses. The agricultural/commodity industries may also hold a great deal of value as the recent cycle seems to be bottoming according to the recent language heard from companies like Lindsay Corp (LNN). A different take on pessimistic reports of specific company end-markets like tractor sales for AGCO Corp (AGCO), is that such numbers tend to lag commodity price recoveries rather than forecast extended downturns.

The retail industry is a specific example of this effect. The entire space from department stores to grocers has been upended by the newest household name – Amazon. Disruption is generally healthy. Constructive disruption tends to reduce consumer costs, improve quality, and naturally reset valuations. As with anything, those valuation resets may end up being overdone. YTD the industry has returned -16.79% compared to AMZN’s +28.08% return. The market would seem to be telling us that one, single company will monopolize every aspect of retail, yet AMZN just recently entered the brick and mortar business, the very segment for which many have sounded the death knell. Food for thought.

Of course retail is not the lone victim of negative sentiment, there have been and are similar tones surrounding the auto industry, the agriculture industry, and more broadly among sectors more sensitive to the aforementioned political and domestic macro factors. We believe our most favorable opportunities are in those three sectors with the addition of industry pockets like retail and entertainment within Consumer Discretionary.

¹Bloomberg BEst P/E as of 9/30/2017

Portfolio Highlights

The Oberweis Small-Cap Value strategy returned 5.82% (5.50% net of fees) during the September quarter versus 5.11% for the benchmark Russell 2000 Value Index. Year-to-date, the portfolio has returned 6.72% (5.71% net of fees) versus 5.68% for the benchmark. As of September 30, 2017, the portfolio was 99.2% invested in 97 different positions. The portfolio had its largest weights in financial services (38.44% versus 41.99% for the benchmark), producer durables (16.11% versus 11.14%), and technology (10.85% versus 8.35%). In the third quarter, the portfolio was positively impacted by favorable stock selection in financial services (our holdings in this sector returned 5.03% versus 4.34% for those in the benchmark), consumer staples (13.55% versus 2.83%), and technology (10.92% versus 2.42%). Return was adversely impacted by stock selection in producer durables (6.45% versus 7.91%) and health care (0.91% versus 13.65%).

Organization Update

David Wetherell and Umesh Nathani joined Oberweis effective October 2, 2017, in conjunction with the acquisition of the assets of the Cozad Small Cap Value Fund by the Oberweis Small Cap Value Fund. Prof. David Ikenberry now serves as Strategic Advisor to the Oberweis Small Cap Value Team.

PORTFOLIO CHARACTERISTICS

(AS OF SEPTEMBER 30, 2017)

Number of Stocks	97
Weighted Market Capitalization (in millions)	\$2,606
Median Market Capitalization (in millions)	\$2,480
P/E Forward 4 Quarters (estimated)	16.5x
Long-Term Future EPS Group Rate (estimated)	6.0%
Long-Term Debt to Total Equity	17.0%
Return on Equity	7.0%
Cash Position	0.8%

Source: Thomson Reuters Eikon

Key Benefits

The Small-Cap Value strategy seeks to achieve its objective by making intermediate and long-term investments in domestic, publicly-traded equity securities of small capitalization companies. The strategy primarily invests in companies based in the United States with market capitalization of up to \$3 billion.

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

- Potential for significant alpha over a full market cycle
- Disciplined and repeatable investment process managed by a passionate and experienced investment team
- Research process specifically designed to efficiently discover smaller cap companies that are undervalued by traditional Wall Street research analysts and market participants
- Exposure to undervalued smaller cap companies offering the potential for upside as a result of the markets misinterpretation or misunderstanding of positive information signals like stock repurchase activity, dividend increases and merger activity
- Diversified portfolio with a focus on risk management

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

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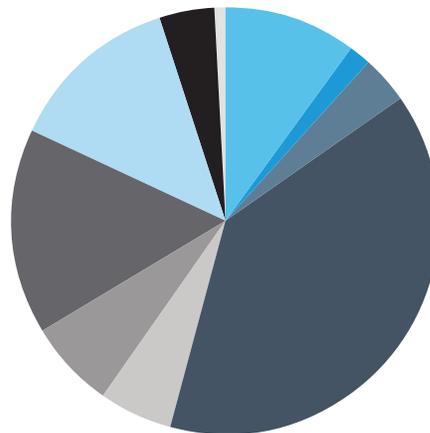
TOP TEN HOLDINGS (as of September 30, 2017)

Company		Line of Business
1	Union First Market Bankshares Corp. 3.8%	Multi-bank holding company operating throughout Virginia
2	TiVo Corp. 2.8%	Licenses multiple, proprietary patents and specializes in entertainment technology and audience insights
3	Old National Bancorp. 2.7%	Multi-bank holding company operating in Indiana, Illinois, Ohio, Kentucky, and Tennessee
4	Progress Software Corp. 2.6%	Develops, markets, and distributes applications, databases, messaging servers, and development tools
5	Associated Banc Corp. 2.5%	Midwest banking franchise headquartered in Green Bay, Wisconsin
6	Aegion Corp. 2.2%	Provides technologies and services to protect, rehabilitate, strengthen, and extend the life of infrastructure assets
7	Triumph Group, Inc. 2.1%	Designs, engineers, manufactures, repairs, overhauls, and distributes aircraft components
8	First Commonwealth Financial Corp. 2.0%	Multi-bank holding company operating in Pennsylvania and Ohio
9	Ryman Hospitality Properties, Inc. 1.8%	REIT specializing in group-oriented, destination hotel assets in urban and resort markets
10	Matson, Inc. 1.8%	Transports freight between the continental US and ports in Hawaii, Guam, Micronesia, and China

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 September 30, 2017)

Consumer Discretionary	10.2%
Consumer Staples	1.6%
Energy	3.6%
Financial Services	38.9%
Health Care	5.5%
Materials & Processing	6.6%
Producer Durables	15.6%
Technology	13.0%
Utilities	4.2%
Cash	0.8%
Total	100.0%



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

AVERAGE ANNUAL TOTAL RETURNS (as of September 30, 2017)

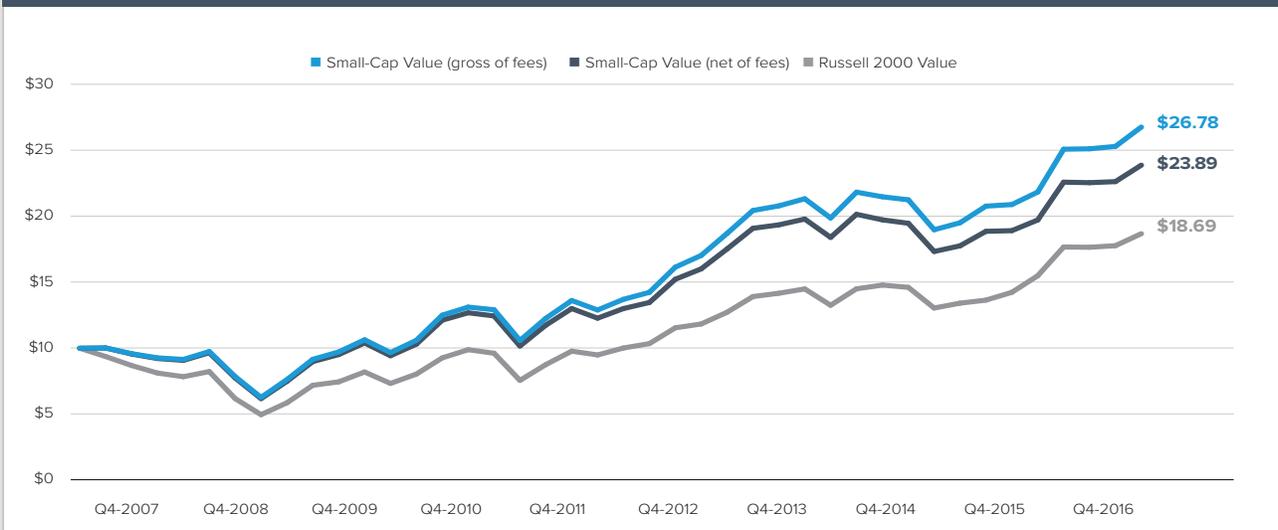
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception (7/31/2007)
Small-Cap Value (gross of fees)	5.82%	6.72%	22.60%	10.46%	14.33%	10.34%	10.18%
Small-Cap Value (net of fees)	5.50%	5.71%	21.10%	9.07%	12.92%	9.08%	8.94%
Russell 2000 Value Index	5.11%	5.68%	20.55%	12.12%	13.27%	7.14%	7.28%

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 fully discretionary accounts with a minimum value of \$5 million. Performance returns prior to October 2, 2017 were derived from another registered investment advisor. Accounts are dollar-weighted within the composite and reported in U.S. dollars.

The Russell 2000 Value Index is an unmanaged market capitalization-weighted index of value-oriented stock of U.S. domiciled companies that are included in the Russell 2000 Index. Value-oriented stocks tend to have lower price-to-book ratios and lower forecasted growth values.

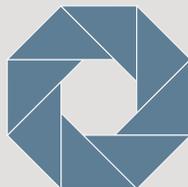
Advisory fees are disclosed in Part II of Form ADV. Performance is historical and includes the reinvestment of dividends and other income. Past performance is not necessarily indicative of future results.

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 (July 31, 2007 – September 30, 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.

[MEET THE TEAM](#)