Oberweis
Asset Management

MICRO-CAP GROWTH STRATEGY

4Q 2017

The Quarter and Year in Review

The Oberweis Micro-Cap Composite had another strong year in 2017, returning 29.44% versus 22.17% for the Russell 2000 Growth Index, an outperformance of 727 basis points. The Composite also outperformed the Russell Microcap Growth Index in 2017 by 1,279 basis points. During the fourth quarter, the Composite returned 3.74% versus 4.59% for the Russell 2000 Growth Index, a shortfall of 85 basis points. Compared to the Russell Microcap Growth Index's return of 0.93%, however, the Composite outperformed by 281 basis points.

This performance was generated in the face of mixed style and capitalization forces. Growth stocks outperformed value stocks by a wide margin during the quarter and the year , a reversal from 2016 which aided the portfolio from a style perspective. The portfolio's micro-capitalization focus, however, represented a headwind as larger-cap stocks outperformed small-cap stocks during the quarter and the year . In fact, the smallest capitalization quintile and stocks with capitalizations under $1 billion – our micro-cap hunting ground – were the worst performing stocks within the Russell 2000 Growth Index itself. Additionally, biotech stocks, which returned a staggering 60% in 2017 and represented nearly 10.7% of the benchmark at the year-end, detracted from portfolio performance. We are consistently and substantially underweight biotech shares given that most companies lack earnings (and therefore the potential for earnings "surprises") and do not fit our investment philosophy.

The big surprise in 2017 was market volatility – or lack thereof. In fact, using the CBOE's VIX Index as a proxy, 2017 ranks as the "quietest" year for market volatility since 1990. During 2017, the VIX Index closed below 10 on 52 occasions, a stunning measure considering the VIX registered only nine such closes during the entire period from 1990 through 2016 . The biggest intra-year peak-to-trough decline for the S&P 500 Index during 2017, at 3.6%, was the lowest intra-year drawdown in the index since 1995 . We suspect a reversion to the mean could be in the offing in 2018.

Strength in equities was not limited to the U.S. in 2017, as European markets such as France, Germany, and the UK posted strong returns. Several emerging markets were also robust, led by rebounds in China and India and continued strength in Brazil. Japanese equities also performed well.

Global equities were buoyed by surprising economic and profits growth world-wide, and we believe recent data support strong economic growth in 2018. In the U.S., corporate profits accelerated in 2016 and 2017 and expectations are for continued growth in 2018 given the anticipated benefits from corporate tax reform. U.S. manufacturing PMI was stronger in 2017 than 2016, culminating in a December monthly reading that was the highest of the year. The U.S. consumer's balance sheet remains in great shape, bolstered by record net worth and historically low levels of debt service requirements. Housing is still affordably priced as mortgage rates – while higher than last year – remain at historically low levels. And despite an economic expansion nine years in the making, capital goods orders and housing starts are only at average historical levels, debunking concerns of froth or over-heating.

Furthermore, we believe the recently passed Tax Cuts and Jobs Act will fuel incremental economic growth in the short-term. Importantly, the reduction of the corporate tax rate to 21% will result in a cash flow boon for companies that should lead to increased levels of investment as at least a portion of that cash is plowed back. Furthermore, the repatriation of cash held abroad likely increases marginal spending by business on property, plant, equipment, and ultimately, jobs. The bill also allows for the immediate expensing of short-lived capital investments for the next five years to further encourage expenditures.

This corporate tax change and corresponding increase in free cash flow, as we noted last quarter, also favorably impact the valuation of U.S. stocks, particularly for small-cap companies that tend to do more business domestically than large-cap multi-nationals. We believe the upside to earnings from the tax change is not yet adequately reflected for many of our portfolio holdings. We also suspect that tax-related upward earnings estimate revisions will positively impact the flow of investment ideas for our portfolio in 2018.

More broadly, valuations (as measured by P/E's) in the U.S. are at above-average levels for both the S&P 500 Index and for our investable universe of small-cap growth companies, a fact that is discussed ad nausea on CNBC and in the financial media these days. We would continue to caution that these above-average P/E's are against a backdrop of interest rates that are well below average levels, theoretically rendering historical P/E comparisons – which occurred during higher rate environments – less important.

That said, we believe the biggest risk to equity markets – aside from simmering and frankly unpredictable geo-political events – lies with interest rates. The Federal Reserve has now clearly moved to a tightening stance, raising rates three times in 2017 and importantly embarking on a balance sheet reduction strategy that will become increasingly impactful in 2018. Additionally, Federal Reserve Chair nominee Jerome Powell represents a potential "uncertainty" as he takes office and puts his own stamp on central bank policies. The market may be hyper-sensitive to his comments early in his tenure, particularly given that the leadership change coincides with a shift in Fed policy to a more hawkish stance after nearly a decade of easy money.

While headlines and investor risk appetites can change on a whim in the short-term, our bottom-up strategy has always been focused on investing in businesses with idiosyncratic attributes that afford the potential for earnings growth to surprise to the upside. These companies are often undergoing a transformational change or event that we believe is potentially misunderstood or underestimated by the consensus. While the earnings multiples afforded such companies can oscillate from quarter to quarter, we believe that prudent stock selection of a diversified portfolio of companies with prospects for better-than-expected earnings growth is likely to outperform the broader market over the long-term.

[1] The Russell 2000 Growth Index returned 6.22%, 16.81%, and 5.45% for the quarter, year-to-date, and month (ended September 30, 2017), respectively. The Russell 2000 Value Index returned 5.11%, 5.68%, and 7.08% for the quarter, year-to-date, and month (ended September 30, 2017), respectively.

[2] The Russell 1000 Growth Index returned 5.90% during the quarter and 20.72% year-to-date.

[3] The biotechnology industry within the Russell 2000 Growth Index (Russell classifications) returned 14.64% during the quarter.

MICRO-CAP GROWTH

4Q 2017

Portfolio Highlights

As of December 31, 2017, the portfolio was 95.3% invested in 92 different positions. The portfolio had its largest weightings in producer durables (22.4% average weighting during the quarter versus versus 15.7% for the Russell 2000 Growth Index), technology (20.9% versus 19.8%), and consumer discretionary (17.0% versus 15.7%). The portfolio was most underweight healthcare (16.5% versus 23.1%), materials (4.8% versus 8.6%) and utilities (0.0% versus 2.3%).

In the fourth quarter the portfolio benefited from favorable stock selection in technology (where our holdings returned 6.39% versus a 1.93% return for the benchmark's technology holdings) and materials (18.07% versus 6.95%). Performance was negatively impacted by stock selection in financial services (-3.80% versus 3.75%) and producer durables (3.85% versus 4.81%). From a capitalization standpoint, the portfolio's substantial exposure to the smallest capitalization quintile in the Russell 2000 Growth Index negatively impacted performance by 125 basis points.

Some of the top performers during the fourth quarter included: Spartan Motors (SPAR), which returned 43% and contributed 77 basis points to portfolio return; USA Technologies (USAT), which returned +56% and contributed 75 basis points to portfolio return; and Electro Scientific Industries (ESIO), which returned +54% and contributed 49 basis points to portfolio return. In contrast, some of the leading detractors for the quarter included: OSI Systems (OSIS), which returned -30% and detracted 38 basis points from portfolio return; Hudson Technologies (HDSN), which returned -18% and detracted 33 basis points from portfolio return; and Adesto Technologies (IOTS), which returned -24% and detracted 28 basis points from portfolio return.

PORTFOLIO CHARACTERISTICS
(AS OF DECEMBER 31, 2017)

Number of Stocks	93
Weighted Market Capitalization (in millions)	$953
Median Market Capitalization (in millions)	$746
P/E Forward 4 Quarters (estimated)	17.2x
Long-Term Debt to Total Equity	11.0%
Return on Equity	5.0%
Cash Position	4.7%
Portfolio Turnover (2017)	85.7%

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

4Q 2017

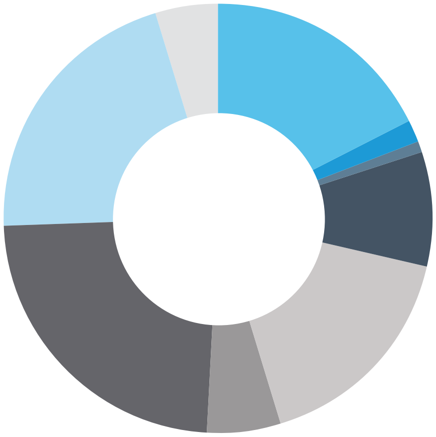
TOP TEN HOLDINGS *(as of December 31, 2017)*

	Company		Line of Business
1	SkyWest, Inc.	2.4%	Operates a regional airline within North America
2	Spartan Motors, Inc.	2.2%	Develops and manufactures custom chassis for specialty vehicles
3	Extreme Networks, Inc.	2.1%	Provides software-driven networking solutions
4	AXT, Inc.	2.0%	Producer of high-performance compounds used in semiconductors
5	Cutera, Inc.	2.0%	Develops laser-based aesthetic products
6	Career Education Corp.	1.9%	Provides for-profit secondary education in the U.S.
7	Patrick Industries, Inc.	1.8%	Manufactures building materials used primarily by the recreational vehicle industry
8	Carbonite, Inc.	1.8%	Provides cloud data protection services to consumers and businesses
9	Tactile System Technology, Inc.	1.8%	Develops medical devices for the treatment of lymphedema
10	USA Technologies, Inc.	1.8%	Offers consumer payment systems

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 December 31, 2017)*

Consumer Discretionary	17.7%
Consumer Staples	1.5%
Energy	1.0%
Financial Services	8.5%
Health Care	16.6%
Materials & Processing	5.8%
Producer Durables	23.4%
Technology	20.8%
Utilities	0.0%
Cash	4.7%
Total	100.0%



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

Oberweis
Asset Management

MICRO-CAP GROWTH

4Q 2017

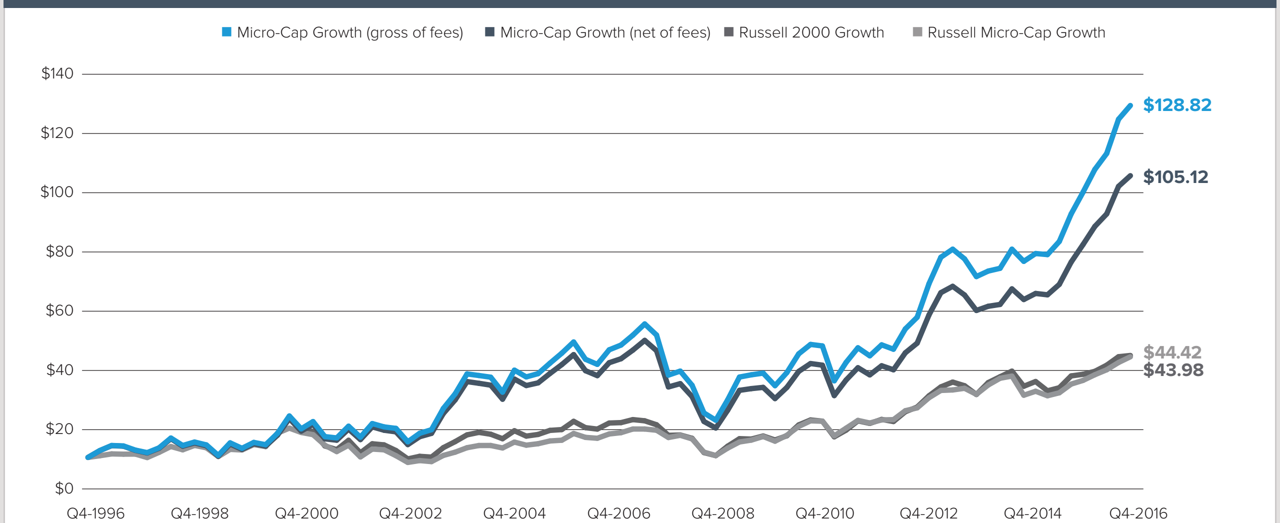
AVERAGE ANNUAL TOTAL RETURNS *(as of December 31, 2017)*	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 1/1/1996
Micro-Cap Growth (gross of fees)	**3.74%**	**29.44%**	**20.88%**	**22.59%**	**9.64%**	**12.34%**
Micro-Cap Growth (net of fees)	**3.56%**	**28.44%**	**19.88%**	**21.57%**	**8.61%**	**11.30%**
Russell Microcap Growth Index	0.93%	16.65%	6.22%	13.82%	7.23%	N/A
Russell 2000 Growth Index	4.59%	22.17%	10.28%	15.84%	9.19%	7.20%

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– December 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