Oberweis
Asset Management

SMALL-CAP VALUE STRATEGY 4Q 2017

The Quarter and Year in Review

The Oberweis Small-Cap Value strategy finished the year strongly, returning 10.99% in 2017 versus 7.84% for the benchmark Russell 2000 Value Index, an outperformance of 315 basis points. The bulk of strategy outperformance occurred in the fourth quarter, with a return of 4.06% versus 2.05% for the benchmark.

2017 proved to be a year of nearly explosive geopolitical rhetoric – pun intended – and an emotionally charged domestic landscape as well. Despite the drama, markets continue to climb higher on the back of strong earnings and a generally positive corporate environment. As we predicted, a compromise on tax reform was reached and, given the significant reduction in corporate tax rates, a major support factor for premium equity valuations seems to be in place. The Tax Cuts and Jobs Act will obviously benefit high-tax industries and seems likely to disproportionately benefit small-cap value firms such as those in this strategy, which tend to be U.S. centric, have a high effective tax rate, and the ability to benefit from changes in depreciation. The larger question for 2018, however, centers on how much of this benefit is already factored into current stock prices, and what undiscounted catalysts may still lie ahead.

With tax reform on the books, we expect the Trump administration to shift focus toward federal infrastructure spending – one of few areas with bipartisan support. As we noted in a previous commentary, federal infrastructure spending will take far longer to implement than the market implied with the post-election rally in 2016; we also propose it could be a key support factor for sustaining valuations in 2018. While data points such as the ISM and homebuilding indexes have provided positive support, fulfillment of the government's prior pledge to fund infrastructure would be a long-term catalyst for job creation and economic growth that we believe is not fully discounted in stock prices. A large infrastructure program directly benefits construction and manufacturing, but would also yield "trickle" effects to peripheral industries. For example, consider a restaurant and hotel near a bridge whose repair is part of the program). The potential for a tangible infrastructure spending program helps to partially offset our concerns of frothy large-cap market valuations.

Still, infrastructure alone may not be enough. Low interest rates still bolster today's premium valuations. The Fed raised rates in December and is expected to pursue three increases in 2018. Continued Fed unwinding of its balance sheet, potential wage inflation, and unexpected economic weakness offer potential pitfalls for equities. We also cannot discount global geopolitical tensions, which seem abnormally high. On the more benign side, there are trade and immigration concerns, and on the extreme side looms threats of war.

We aren't asserting that any of these scenarios will come to pass, and we certainly are not harbingers of doom. However, it does appear that the market may not be appropriately discounting these risks. It's been said that "Complacency Kills," and we can't help but note the exceptionally low levels of expected volatility as measured by the CBOE's Volatility Index, known as the VIX. Using data going back to 1990, the quarterly average VIX level is about 15. The VIX closed 2017 at about 11 and is hovering around nine to start the New Year, nearly two standard deviations below the average. Whether one turns to newspaper, radio, television, or digital content as their preferred news source, it does not seem rational to believe that we are in some idyllic "golden era" where investment risk has been peacefully euthanized. In reality, while there is good reason to remain positive on the market, we also find it is generally best to temper enthusiasm with a healthy dose of prudence.

Exercising that prudence is what we believe allows us to deliver stability and consistency via our strategy returns. Our performance attribution in 2017 is a testament to that approach. For example, in a year where technology and health care dominated, we found alpha opportunities in financials, utilities, and staples. Our alpha comes from identifying stocks with positive information signals and which are subject to behavioral underreaction. These signals may range from positive fundamental management guidance to value-based share repurchases. A few specific examples could be seen with 2017 winners like Legg Mason (LM), American States Water (AWR), and Bob Evans (BOBE). Each of these companies had taken some action to demonstrate undervaluation over time, yet had been overlooked due to negative surrounding sentiment. While the market disapproved of Legg Mason's rapid acquisition-fueled growth strategy, the firm continued to positively surprise analysts and kept reducing share count as the stock price fell. American is a utility and therefore part of a sector known to be currently valued well-above its historical average yet AWR also continues to operate more profitably than peers with strong dividend growth. Bob Evans was an out-of-favor restaurant in an out-of-favor industry. BOBE had also taken advantage of a falling price to repurchase shares while clearly telegraphing its intent to monetize its valuable packaged foods business. While our natural lack of exposure growth-oriented industries like biotech and semiconductors was a headwind in 2017, our ability to prudently balance return alongside such industry tracking risk helped offset those factors. This can be observed directly when looking at selection versus allocation contributions to performance as discussed in the highlights below.

Looking forward into 2018, we are believers in the presently-abhorred retail industry, especially given the discounted prices we can pay for their shares. We believe the fourth quarter witnessed a bottoming in the industry as companies began to show they are more resilient than their representative market valuations implied. Stocks such as Wolverine Worldwide (WWW) posted returns greater than 10%. Even entertainment and restaurant stocks like AMC Entertainment (AMC) and Cheesecake Factory (CAKE) saw some relief and posted positive returns (4% and 15%, respectively) which also bested the benchmark.

We pointed out such price dislocations last quarter and discussed the "Amazon Effect", even while Amazon increased its brick and mortar footprint ending and bought Whole Foods. Subsequently, we added grocers to our list of overdone market casualties. It has worked out well. We continue to believe that, in the longer term, the disruption facing all these industries will stimulate innovation and renewed competition in the face of shifting consumer preferences. However in the near term, markets continue to overreact to potentially short-term negative information by driving prices down. In the best case, such overreaction may create price dislocation reflective of multiple future years of underperformance. In the worst case, companies get priced for bankruptcy.

We believe these overreactions are creating favorable long-term opportunities which, accordingly, may require patience to prevail. However, 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.

Oberweis Asset Management

SMALL-CAP VALUE

4Q 2017

Portfolio Highlights

As of December 31, 2017, the portfolio was 99.6% invested in 92 different positions. The portfolio had its largest weights in financial services (39.36% versus 42.14% for the benchmark), producer durables (15.33% versus 12.06%), and technology (11.28% versus 9.05%). Stock selection drove 74% of the year's return vs. 16% of the return attributable to allocation. In the fourth quarter and for the entire year, the portfolio was positively impacted by stock selection in financial services (our holdings in this sector returned 11.86% versus 3.76% for those in the benchmark), utilities (23.63% versus 9.19%), and consumer staples (17.63% versus -5.33%). Return was adversely impacted by stock selection in consumer discretionary (5.52% versus 13.13%), producer durables (11.10% versus 18.63%) and health care (24.99% versus 30.86%).

Some of the top performers for the year included: Progress Software Corp (PRGS), which returned +50.4% and contributed 94 basis points to the portfolio's return; Bruker Corp (BRKR), which returned +63.0% and contributed 71 bps; and Dupont Fabros Technology (DFT), which returned +47.1% and contributed 69 bps. Some of the bottom contributors for the quarter included: Superior Energy Services (SPN), which returned -43.0% and detracted 61 bps; Tivo Corp (TIVO), which returned -22.3% and detracted 55 bps; and Matrix (MTRX), which returned -51.2% and detracted 42 bps.

PORTFOLIO CHARACTERISTICS
(AS OF DECEMBER 31, 2017)

Number of Stocks	92
Weighted Market Capitalization (in millions)	$2,584
Median Market Capitalization (in millions)	$2,634
P/E Forward 4 Quarters (estimated)	15.8x
Long-Term Future EPS Group Rate (estimated)	5%
Long-Term Debt to Total Equity	18%
Return on Equity	7%
Cash Position	0.4%

Source: Thomson Reuters Eikon

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. Dr David Ikenberry now serves as Strategic Advisor to the Oberweis Small-Cap Value Team.

Key Benefits

The Small-Cap Value strategy seeks to achieve it's 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 misinterpreation or misunderstanding of positive information signals like sock 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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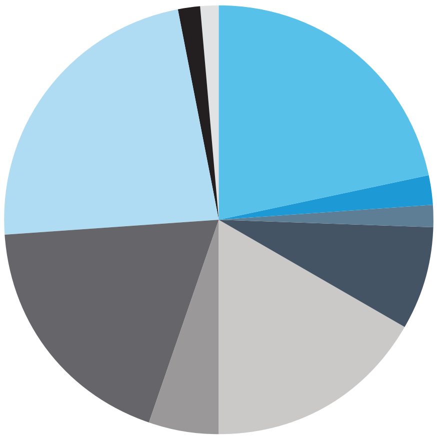
TOP TEN HOLDINGS *(as of December 31, 2017)*

	Company		Line of Business
1	TiVo Corp.	3.1%	Licenses multiple, proprietary patents and specializes in entertainment technology and audience insights
2	Old National Bancorp	2.6%	Multi-bank holding company operating in Indiana, Illinois, Ohio, Kentucky, and Tennessee
3	Union First Market Bankshares Corp.	2.4%	Multi-bank holding company operating throughout Virginia
4	Williams-Sonoma, Inc.	2.3%	Retailer of high-end home goods under Williams-Sonoma, West Elm, Pottery Barn and other retail chains
5	American States Water Co.	2.3%	California-based utility operator focused on water and electricity production and distribution
6	First Commonwealth Financial Corp.	2.1%	Multi-bank holding company operating in Pennsylvania and Ohio
7	Associated Banc-Corp	2.0%	Midwest banking franchise headquartered in Green Bay, Wisconsin
8	Hersha Hospitality Trust	2.0%	Northeastern US REIT operator of upscale and mid-scale hotels
9	Matson, Inc.	2.0%	Transports freight between the continental US and ports in Hawaii, Guam, Micronesia, and China
10	Ryman Hospitality Properties, Inc.	1.9%	REIT specializing in group-oriented, destination hotel assets in urban and resort markets

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	12.9%
Consumer Staples	1.6%
Energy	4.3%
Financial Services	37.8%
Health Care	3.8%
Materials & Processing	6.3%
Producer Durables	15.4%
Technology	12.1%
Utilities	5.4%
Cash	0.4%
Total	100.0%



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

SMALL-CAP VALUE

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AVERAGE ANNUAL TOTAL RETURNS ***(as of December 31, 2017)***	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception (7/31/2007)
Small-Cap Value (gross of fees)	**4.06%**	**10.99%**	**8.46%**	**14.36%**	**11.26%**	**10.34%**
Small-Cap Value (net of fees)	**3.77%**	**9.71%**	**7.12%**	**12.97%**	**9.99%**	**9.11%**
Russell 2000 Value Index	2.05%	7.84%	9.55%	13.01%	8.17%	7.30%

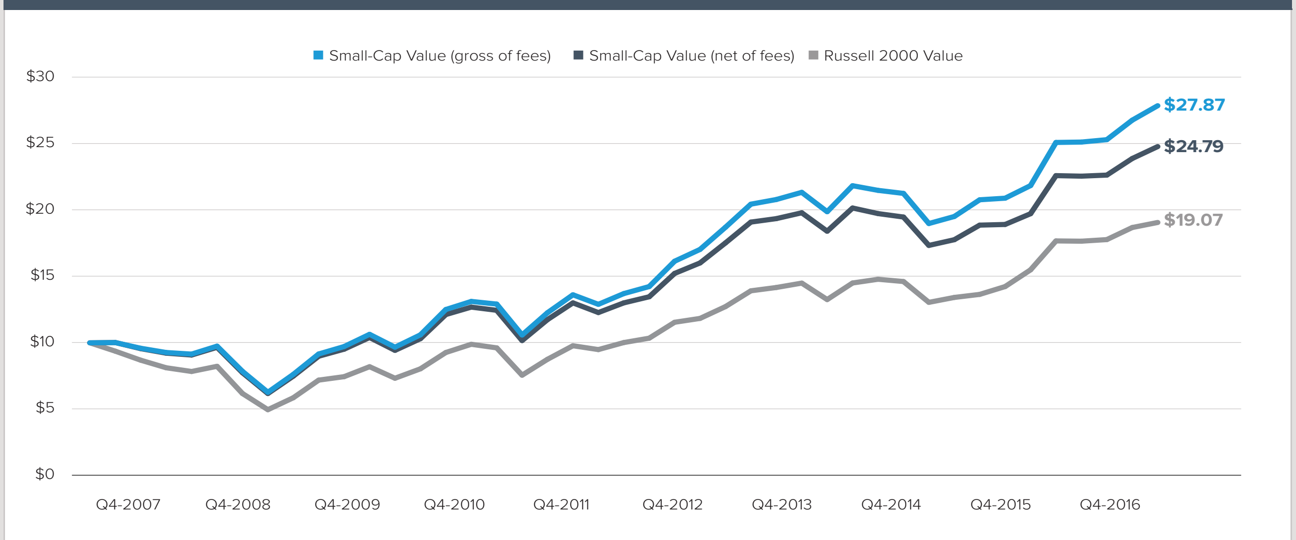
Oberweis Asset Management, Inc. ("OAM") is an independent investment management firm that is not affiliated with any parent organization. The composite returns are comprised of fully discretionary accounts with a minimum value of $5 million. Performance returns prior to October 2, 2017 were derived from 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