

## CONCENTRATED SMALL-CAP GROWTH STRATEGY

1Q 2018

### The Quarter in Review

The Oberweis Concentrated Small-Cap Growth Composite returned -0.67% (-0.81% net of fees) during the March quarter versus a 2.30% return for the benchmark Russell 2000 Growth Index, a shortfall of 297 basis points (311 basis points net of fees).

The portfolio faced style headwinds during the quarter that impacted performance. The benchmark's return during the quarter was driven by lower quality stocks and companies that have no earnings at all. The lowest ROE quintile within the index outperformed all other quintiles by a large margin and trumped the highest ROE quintile by 951 basis points. Companies with no earnings – and therefore no P/E ratios – returned nearly 700 basis points during the quarter. Much of this can be attributed to broad strength in biotech shares, which often lack revenues and earnings. Biotech stocks, which accounted for over 11% of the Russell 2000 Growth Index during the quarter, returned 6.5% and accounted for nearly one-third of the index return. We are consistently underweight biotech in our portfolio given a general lack of congruence with our investment philosophy, which seeks to invest in companies generating significant positive earnings surprises driven by transformative change at the business level.

The positive index return in the quarter was generated against a backdrop of renewed volatility as market participants suddenly became concerned with a myriad of potential issues. We noted the highly abnormal levels of complacency in 2017 during our year-end review, and postulated that a reversion could be in the offing in 2018; this was quickly proved out in February with a dramatic spike in the CBOE's VIX Index (a proxy for volatility) above 50, the highest reading since August 2015. Investors fretted about relations with North Korea, rising interest rates, and a barrage of “off-the-cuff” Tweets by President Trump on a variety of issues including the investigation into his potential ties to Russia, immigration, and U.S. trade policy.

Global economic data remain robust despite these concerns, another interest rate hike by the Federal Reserve, and a 33 basis point increase in 10-year Treasury yields during the quarter. S&P 500 Index operating earnings hit record levels in the fourth quarter and forecasts point to continued growth in 2018. U.S. manufacturing PMI remains at levels indicative of expansion and are similarly robust in Europe and Japan. U.S. manufacturing employment has accelerated since the start of 2017 in support of this growth.

Moreover, there is little evidence of froth or excess in the economy. Real capital goods orders and housing starts are at average historical levels, housing affordability remains a tailwind, and lending standards are well above the levels of the previous decade. Consumer-related metrics like household net worth, debt service ratio, and confidence surveys remain particularly constructive.

Additionally, we believe the Tax Cuts and Jobs Act passed last December will fuel incremental growth in the short-term, although whether that growth will generate enough tax revenue to be deficit-neutral over the long-term still seems highly unlikely. The Congressional Budget Office recently revised upward its estimate for 2018 economic growth to 3.3% as a result of the legislation, and we have also seen upward estimate revisions for companies benefitting from the lower corporate tax rate. This tax change disproportionately benefits small-cap and micro-cap companies and, we believe, is not yet adequately reflected in the valuations of many of our portfolio holdings. As a result of this upward pressure, we broadly see average valuations in our universe and continue to find ample new investment opportunities where our assessment of a company's earnings power differs materially from the market's view.

We continue to believe the biggest risk to equity markets in 2018 lies not with a trade war, political rhetoric, or a conflict with North Korea, but rather with interest rates. The Federal Reserve has increased interest rates four times since the beginning of 2017 and is now executing on a balance sheet reduction strategy, which will increasingly represent a monetary headwind as we move through the year. Additionally, we believe policy uncertainty is heightened in the short-term by the leadership change at the Fed to new Chairman Jerome Powell. Incrementally hawkish commentary by the Fed, combined with balance sheet tapering, could elevate interest rates beyond current expectations and put pressure on equity prices.

While the winds of change can swirl in the near-term, our bottom-up investment strategy focuses specifically on investing in companies demonstrating better-than-expected earnings prospects driven by transformative change in the underlying business. While the P/E multiple afforded such opportunities by investors can oscillate from quarter to quarter, we believe that a diversified portfolio of such investments is likely to outperform the market over the intermediate- to long-term.

## Portfolio Highlights

As of March 31, 2018, the portfolio was 92.1% invested in 36 different positions. The portfolio had its largest weightings in technology (33.8% average weighting during the quarter versus 20.0% for the Russell 2000 Growth Index), consumer discretionary (18.8% versus 15.5%), and health care (15.8% versus 24.3%). In addition to health care, the portfolio was most underweight producer durables (9.1% versus 15.2%) and materials (3.3% versus 8.3%).

In the first quarter the portfolio performance was negatively impacted by stock selection in technology (where our holdings returned -0.20% versus a 9.34% return for the benchmark's technology holdings) and producer durables (-14.71% versus -2.26%).

### PORTFOLIO CHARACTERISTICS

*(AS OF MARCH 31, 2018)*

Number of Stocks	36
Weighted Market Capitalization (in millions)	\$2,786
Median Market Capitalization (in millions)	\$2,223
P/E Forward 4 Quarters (estimated)	18.8x
Long-Term Future EPS Growth Rate (estimated)	13%
Long-Term Debt to Total Equity	9%
Return on Equity	5%
Cash Position	7.9%
Portfolio Turnover (2017)	77.2%

Source: Thomson Reuters Eikon

## Key Benefits

The Concentrated Small-Cap Growth captures and highlights our domestic investment team's stock selection skill over a full market cycle by generally investing in the 25-35 highest conviction ideas from our domestic smaller-cap growth strategies. This strategy helps investors capitalize on the exceptional growth potential of fast-growing emerging companies in the rapid expansion phase of their lifecycle. The Concentrated Small-Cap Growth strategy generally invests in companies with market capitalizations under \$5 billion at the time of purchase.

The key benefits of the Concentrated Small-Cap Growth strategy are:

- Exposure to approximately 30-40 of our team's highest conviction ideas
- Potential for significant alpha over a full market cycle
- Emphasizes rapidly growing smaller-cap companies in the most dynamic phase of their development
- Disciplined and repeatable investment process managed by a passionate and experienced investment team
- Fully invested portfolio - no market timing

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

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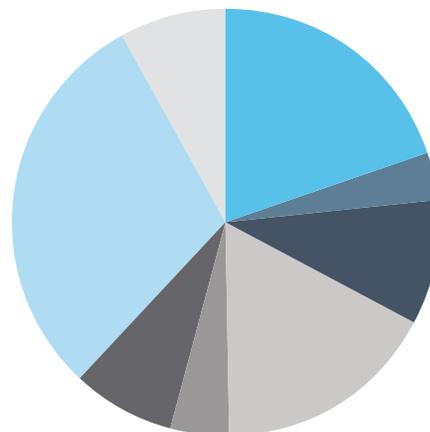
**TOP TEN HOLDINGS (as of March 31, 2018)**

Company		Line of Business
1	Burlington Stores, Inc.	4.9% Operates clothing retail stores focused on low prices
2	LogMeIn, Inc.	4.5% Provides a portfolio of cloud-based service offerings which helps people and businesses to connect to their workplace, colleagues, and customers
3	The Children's Place	4.5% Retailer that offers value-priced apparel and accessories for children
4	LHC Group, Inc.	4.1% Provides post-acute healthcare services primarily to medicare beneficiaries
5	Extreme Networks, Inc.	3.7% Provides soft-ware driven networking solutions
6	Ceva, Inc.	3.4% Licensor of DSP cores and integrated applications to the semiconductor industry
7	Monolithic Power Systems	3.3% Designs and manufactures power management solutions
8	Eagle Bancorp, Inc.	3.1% Bank holding company that offers commercial banking services to individuals
9	Orasure Technologies	3.0% Develops diagnostic tests used to detect infectious diseases
10	Patrick Industries, Inc.	2.9% Manufactures building materials used primarily by the recreational vehicle industry

*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, 2018)**

Consumer Discretionary	19.8%
Consumer Staples	0.0%
Energy	3.6%
Financial Services	9.4%
Health Care	17.1%
Materials & Processing	4.5%
Producer Durables	7.6%
Technology	30.1%
Utilities	0.0%
Cash	7.9%
<b>Total</b>	<b>100.0%</b>



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

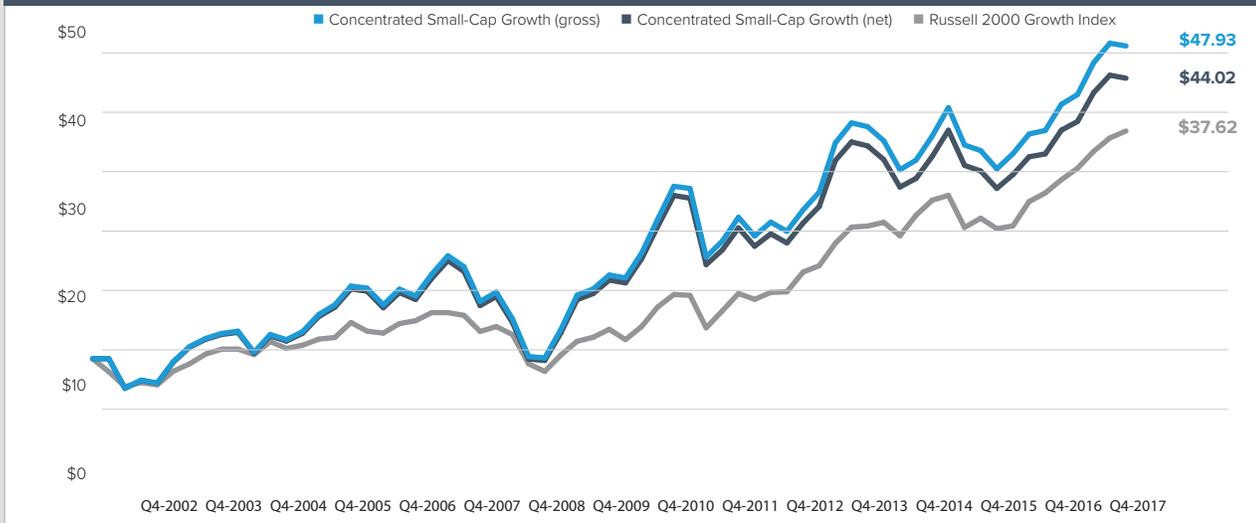
**AVERAGE ANNUAL TOTAL RETURNS (as of March 31, 2018)**

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 5/1/2002
<b>Concentrated Small-Cap Growth (gross of fees)</b>	<b>-0.67%</b>	<b>17.33%</b>	<b>9.02%</b>	<b>11.32%</b>	<b>10.96%</b>	<b>10.35%</b>
<b>Concentrated Small-Cap Growth (net of fees)</b>	<b>-0.81%</b>	<b>16.72%</b>	<b>8.42%</b>	<b>10.72%</b>	<b>10.34%</b>	<b>9.76%</b>
Russell 2000 Growth Index	2.30%	18.63%	8.77%	12.90%	10.95%	8.98%

Oberweis Asset Management, Inc. ("OAM") is an independent investment management firm that is not affiliated with any parent organization. The composite includes all fully discretionary accounts which invest at least 70% of their assets in the securities of U.S. traded companies with a market capitalization between \$100 million and \$2.5 billion at the time of investment. Beginning October 2010, the composite includes accounts managed with similar investment objectives that charge a bundled fee for investment advisory and administrative services. Effective January 1, 2008, portfolios with a market value of under \$5 million will be included in the composite. Prior to January 1, 2008, the minimum market value for portfolios to be included in a composite was \$5 million. From inception to 12-31-10, the composite name was Concentrated Smid-Cap Growth Equity. 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.

**GROWTH OF \$10,000 — WITH INCOME INVESTED (May 1, 2002 – March 31, 2018)**


## 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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