Oberweis
Asset Management

MICRO-CAP GROWTH STRATEGY

1Q 2018

The Quarter in Review

The Oberweis Micro-Cap Composite returned -0.86% (-1.11% net of fees) in the first quarter of 2018 compared to 2.30% for the Russell 2000 Growth Index, a shortfall of 316 basis points (341 basis points net of fees). Against the Russell Microcap Growth Index, which returned 1.00%, the Composite lagged by 185 basis points (211 basis points net of fees).

Size bias represented a significant headwind for the portfolio in the first quarter, as the smallest capitalization quintile within the Russell 2000 Growth Index returned –1.10% and underperformed the largest quintile by 515 basis points. Stocks under $500 million within the index underperformed stocks over $1 billion by 220 basis points.

Furthermore, the Russell 2000 Growth Index’s return 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.

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Portfolio Highlights

As of March 31, 2018, the portfolio was 98.0% invested in 91 different positions. The portfolio had its largest weightings in producer durables (22.7% average weighting during the quarter versus 15.2% for the Russell 2000 Growth Index), technology (20.9% versus 20.0%), and consumer discretionary (18.9% versus 15.5%). The portfolio was most underweight health care (16.3% versus 24.3%), financial services (7.1% versus 10.3%), and materials (5.7% versus 8.3%). Healthcare, primarily because of the aforementioned strength in biotech stocks, was the best-performing sector during the quarter.

In the first quarter the portfolio performance was negatively impacted by stock selection in technology (where our holdings returned -5.07% versus a 9.34% return for the benchmark's technology holdings) and producer durables (-5.28% versus -2.26%). Our selections in consumer staples, energy, financials, and consumer discretionary added value relative to the index.

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

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

PORTFOLIO CHARACTERISTICS
(AS OF MARCH 31, 2018)

Number of Stocks	91
Weighted Market Capitalization (in millions)	$865
Median Market Capitalization (in millions)	$649
P/E Forward 4 Quarters (estimated)	18.9x
Long-Term Debt to Total Equity	11%
Return on Equity	4%
Cash Position	2.0%
Portfolio Turnover (2017)	85.7%

Source: Thomson Reuters Eikon

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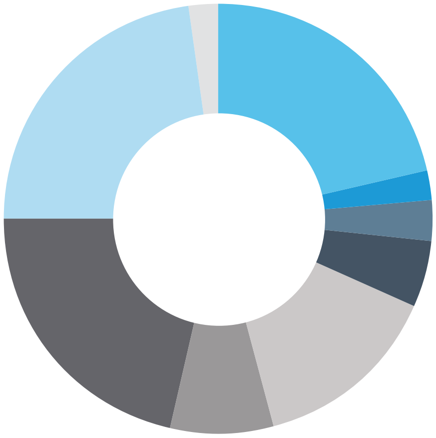
TOP TEN HOLDINGS *(as of March 31, 2018)*

	Company		Line of Business
1	Career Education Corp.	2.6%	Provides for-profit secondary education in the U.S.
2	Spartan Motors, Inc.	2.3%	Develops and manufactures custom chassis for speciality vehicles
3	Adesto Technologies Crop.	2.3%	Develops semiconductor memory devices
4	DMC Global, Inc.	2.0%	Global technology company that offers collaboration, research, development, and other services
5	Malibu Boats, Inc.	2.0%	Designs, manufactures, and markets sport boats
6	Extreme Networks, Inc.	2.0%	Provides software-driven networking solutions
7	Harsco Corp.	1.9%	Provides industrial mill services
8	Manitex International, Inc.	1.9%	Provides specialized cranes and container handling equipment
9	Movado Group, Inc.	1.8%	Designs, manufactures, and retails watches
10	Blucora, Inc.	1.7%	Provides wealth management and tax preparation services

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 DMarch 31, 2018)*

Consumer Discretionary	21.5%
Consumer Staples	2.2%
Energy	3.0%
Financial Services	5.0%
Health Care	14.2%
Materials & Processing	7.8%
Producer Durables	21.6%
Technology	22.8%
Utilities	0.0%
Cash	2.0%
Total	100.0%



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

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

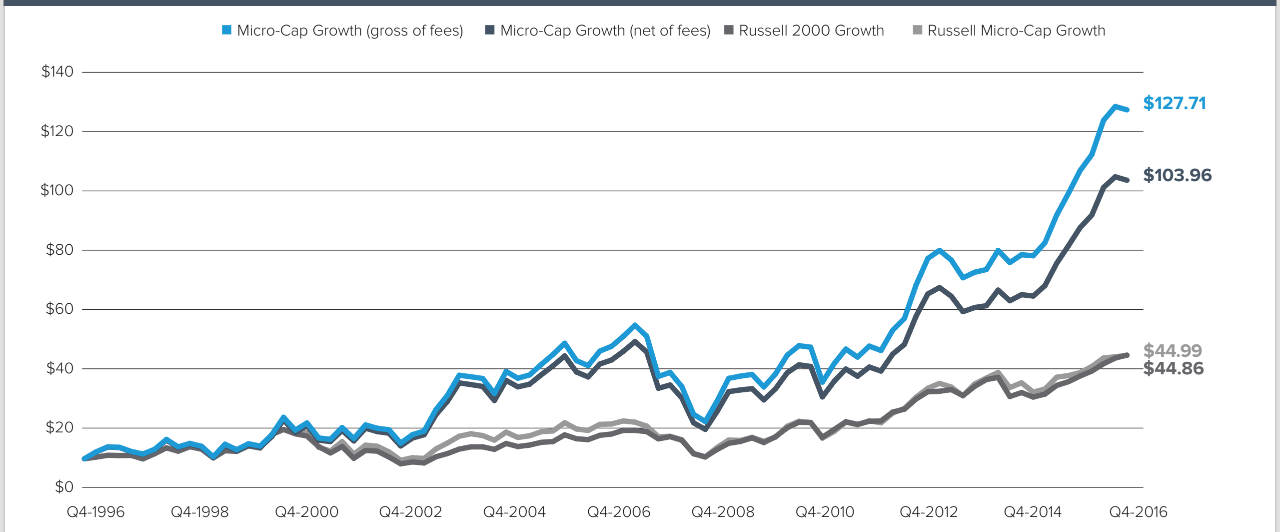
	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 1/1/1996
Micro-Cap Growth (gross of fees)	**-0.86%**	**19.10%**	**20.03%**	**19.06%**	**12.95%**	**12.15%**
Micro-Cap Growth (net of fees)	**-1.11%**	**18.16%**	**19.03%**	**18.06%**	**11.90%**	**11.11%**
Russell Microcap Growth Index	0.99%	14.79%	4.65%	10.91%	9.35%	N/A
Russell 2000 Growth Index	2.30%	18.63%	8.77%	12.90%	10.95%	7.23%

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– March 31, 2018)***



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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