

# OBERWEIS MICRO-CAP FUND INVESTOR CLASS (OBMCX) INSTITUTIONAL CLASS (OMCIX)

1Q 2018

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

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 1/1/1996	Gross/Net Expense Ratio*
<b>Oberweis Micro-Cap Fund Institutional Class (OMCIX)**</b>	<b>-1.23%</b>	<b>17.90%</b>	<b>18.70%</b>	<b>17.68%</b>	<b>11.40%</b>	<b>10.66%</b>	<b>1.28%/1.28%</b>
<b>Oberweis Micro-Cap Fund Investor Class (OBMCX)</b>	<b>-1.23%</b>	<b>17.66%</b>	<b>18.42%</b>	<b>17.40%</b>	<b>11.13%</b>	<b>10.38%</b>	<b>1.54%/1.54%</b>
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%	

\*As of December 31, 2017. Oberweis Asset Management, Inc. (OAM), the Fund's investment advisor is contractually obligated through April 30, 2019 to reduce its management fees or reimburse OBMCX to the extent that total ordinary operating expenses, as defined, exceed in any one year the following amounts expressed as a percentage of each Fund's average daily net assets: 1.8% of the first \$50 million; plus 1.6% of average daily net assets in excess of \$50 million and for OMCIX 1.55% of the first \$50 million; plus 1.35% of average daily net assets in excess of \$50 million. The annual expense ratio will reflect a blend of both the old and new expense reimbursement arrangements in effect for 2017.

\*\*Institutional Class shares OMCIX performance information was calculated using the historical performance of Investor Class shares for periods prior to May 1, 2017.

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so that you may have a gain or loss when shares are sold. Current performance may be higher or lower than quoted. Visit us online at [oberweisfunds.com](http://oberweisfunds.com) for the most recent month-end performance. 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](http://oberweisfunds.com) or call 800-323-6166. Read it carefully before investing. The Oberweis Funds invest in rapidly growing smaller and medium-sized companies that may offer greater return potential. However, these investments often involve greater risks and volatility. Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations. There is no guarantee that the Funds can achieve their objectives.

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.

The Oberweis Funds are distributed by Oberweis Securities, Inc. Member: FINRA & SIPC.

## The Quarter in Review

The Oberweis Micro-Cap Fund returned -1.23% in the first quarter of 2018 compared to 2.30% for the Russell 2000 Growth Index, a shortfall of 353 basis points. Against the Russell Microcap Growth Index, which returned 1.00%, the Fund lagged by 223 basis points.

Size bias represented a significant headwind for the Fund 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 the Fund 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.

## OBERWEIS MICRO-CAP FUND INVESTOR CLASS (OBMCX) INSTITUTIONAL CLASS (OMCIX)

1Q 2018

### The Quarter In Review (continued)

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 Fund 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.

### Fund Highlights

As of March 31, 2018, the Fund was 98.0% invested in 91 different positions. The Fund 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 Fund 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 Fund 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 Fund invests at least 80% of its net assets in the securities of very small companies which, at the time of purchase, have a market capitalization of less than or equal to \$600 million or are within the range of companies represented in the Russell Micro-Cap Growth Index, whichever is greater. This is an effort to capture the exceptional growth potential of emerging companies in the earliest and most dynamic phase of their development.

The potential key benefits of the Micro-Cap Fund 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

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.

Minimum Investment:

Oberweis Micro-Cap Fund Investor Class (OBMCX): \$1,000 non-IRA, \$500 IRA

Oberweis Micro-Cap Fund Institutional Class (OMCIX): \$1.0 million

**For more information please contact:**

**John Collins, CIMA®**

**Oberweis Asset Management, Inc.**

**3333 Warrenville Rd., Suite 500, Lisle, IL 60532**

**(800) 323-6166 | (630) 577-2364 | [john.collins@oberweis.net](mailto:john.collins@oberweis.net)**

# OBERWEIS MICRO-CAP FUND INVESTOR CLASS (OBMCX) INSTITUTIONAL CLASS (OMCIX)

1Q 2018

## FUND 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	

## 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*

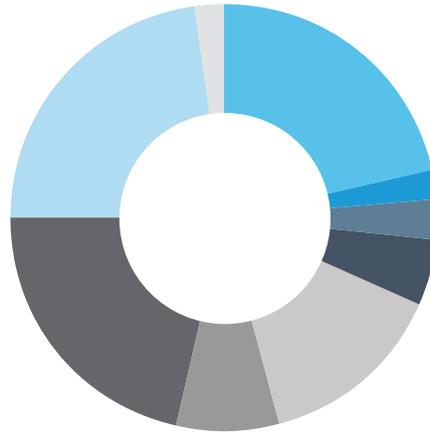


**OBERWEIS MICRO-CAP FUND  
INVESTOR CLASS (OBMCX)  
INSTITUTIONAL CLASS (OMCIX)**

1Q 2018

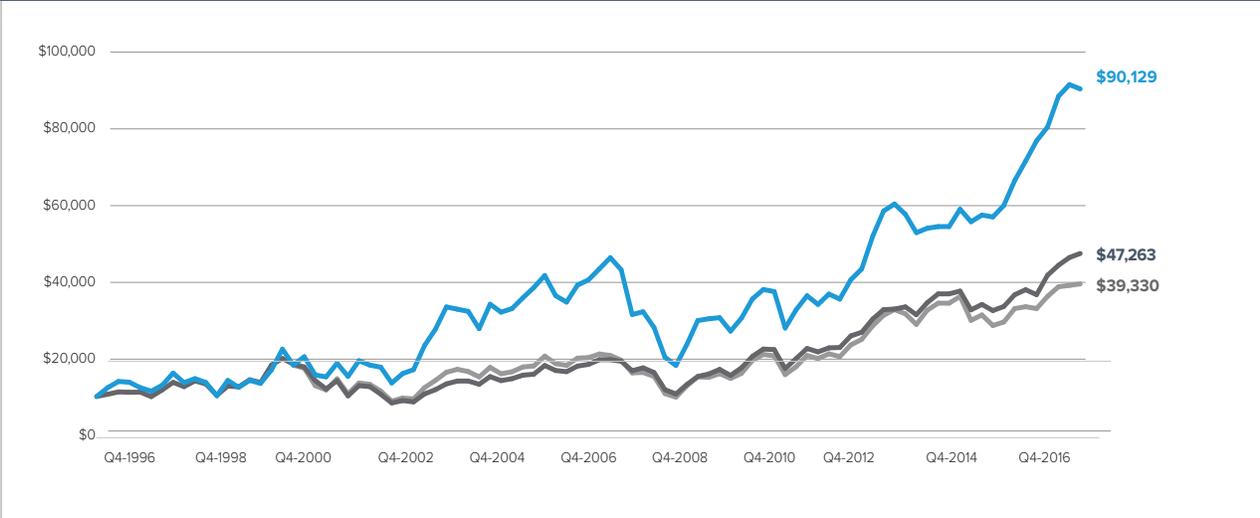
**SECTOR WEIGHTINGS (as of March 31, 2018)**

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%
<b>Total</b>	<b>100.0%</b>



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

**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.



[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](#)