

SMALL-CAP OPPORTUNITIES STRATEGY

1Q 2018

The Quarter and Year in Review

The Oberweis Small-Cap Opportunities Composite returned 0.51% (0.29% net of fees) during the March quarter versus a 2.30% return for the benchmark Russell 2000 Growth Index, a shortfall of 179 basis points (201 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 94.3% invested in 87 different positions. The portfolio had its largest weightings in producer durables (20.1% average weighting during the quarter versus 15.2% for the Russell 2000 Growth Index), technology (19.9% versus 20.0%), and consumer discretionary (19.8% versus 15.5%). The portfolio was most underweight health care (16.5% versus 24.3%), materials (4.7% versus 8.3%), and financial services (9.1% versus 10.3%). Health care, 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 0.88% versus a 9.34% return for the benchmark's technology holdings) and producer durables (-5.34% versus -2.26%). The portfolio benefitted from positive stock selection in consumer discretionary, materials, and financials sectors.

Key Benefits

The Small-Cap Opportunities strategy seeks to capitalize on the exceptional growth potential of smaller companies that are often misunderstood by traditional Wall Street research analysts. The Small-Cap Opportunities strategy generally invests in companies (with market capitalizations under \$5.0 billion at the time of purchase) where our expectations for earnings growth differ from consensus expectations. These companies often boast exciting products and/or services, a strong and sustainable competitive position, and the potential for upward revisions in earnings expectations in the future. Our fundamental research process is specifically designed to efficiently identify such opportunities.

The key benefits of the Small-Cap Opportunities strategy are:

- 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 smaller cap companies that are misunderstood by traditional Wall Street research analysts
- Exposure to smaller 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 | 87 |
| Weighted Market Capitalization (in millions) | \$2,270 |
| Median Market Capitalization (in millions) | \$1,930 |
| P/E Forward 4 Quarters (estimated) | 17.5x |
| Long-Term Future EPS Group Rate (estimated) | 11% |
| Long-Term Debt to Total Equity | 12% |
| Return on Equity | 5% |
| Cash Position | 5.7% |
| Portfolio Turnover (2017) | 137.1% |

Source: Thomson Reuters Eikon

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

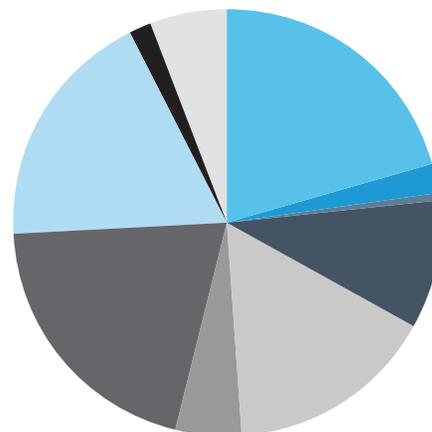
TOP TEN HOLDINGS (as of March 31, 2018)

| Company | | Line of Business |
|---------|-------------------------|--|
| 1 | Extreme Networks, Inc. | 2.7% Provides software-driven networking solutions |
| 2 | Career Education Corp. | 2.3% Provides for-profit secondary education in the U.S. |
| 3 | Skywest, Inc. | 1.9% Operates a regional airline within North America |
| 4 | Harsco Corp. | 1.8% Provides industrial mill services |
| 5 | Lumentum Holdings, Inc. | 1.8% Supplies photonics and optical components |
| 6 | Burlington Stores, Inc. | 1.8% Owns and operates clothing retail stores |
| 7 | At Home Group, Inc. | 1.7% Owns and operates home decor stores |
| 8 | LogMeIn, Inc. | 1.6% Provides a portfolio of cloud-based service offerings which helps people and businesses connect to their workplace, colleagues, and customers |
| 9 | Vonage Holding Corp. | 1.6% Provides telecommunications services |
| 10 | Infinera Corporation | 1.6% Manufactures digital optical telecommunications equipment |

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 | 20.6% |
| Consumer Staples | 2.3% |
| Energy | 0.6% |
| Financial Services | 9.8% |
| Health Care | 15.6% |
| Materials & Processing | 5.2% |
| Producer Durables | 20.2% |
| Technology | 18.4% |
| Utilities | 1.6% |
| Cash | 5.7% |
| Total | 100.0% |



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

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

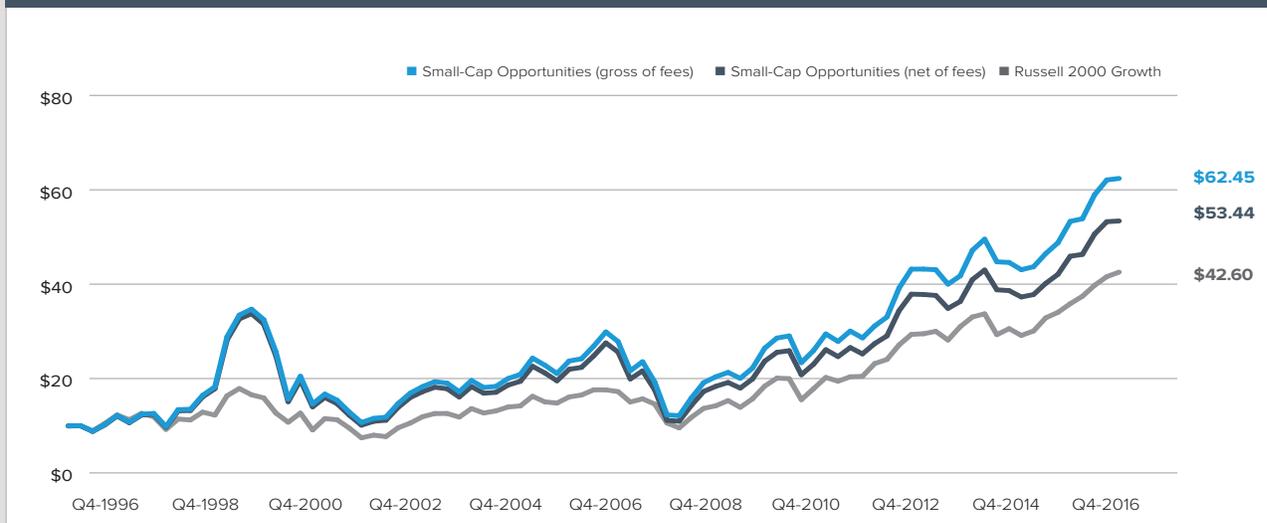
| | QTD | 1 Yr | 3 Yr | 5 Yr | 10 Yr | Since Inception (9/15/1996) |
|--|--------------|---------------|--------------|---------------|---------------|-----------------------------|
| Small-Cap Opportunities (gross of fees) | 0.51% | 17.06% | 9.77% | 14.90% | 11.15% | 8.99% |
| Small-Cap Opportunities (net of fees) | 0.29% | 16.27% | 9.22% | 14.25% | 10.35% | 8.20% |
| Russell 2000 Growth Index | 2.30% | 18.63% | 8.77% | 12.90% | 10.95% | 7.09% |

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 \$2.5 million. Performance results, from 1-1-97 to 12-31-03 and from 7-1-08 to present, are derived solely from the performance of the Oberweis Small-Cap Opportunities Fund (formerly known as the Oberweis Mid-Cap Fund), a registered open-end mutual fund, for which OAM serves as investment adviser. 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.

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 (September 15, 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](#)