

## CONCENTRATED SMALL-CAP GROWTH STRATEGY

3Q 2018

### The Quarter in Review

The Oberweis Concentrated Small-Cap Growth Composite returned 8.89% (8.75% net of fees) during the second quarter versus a 5.52% return for the benchmark Russell 2000 Growth Index, an outperformance of 337 bps (323 basis points net of fees). Year-to-date, the Composite returned 18.12% (17.64% net of fees) versus 15.76% for the Russell 2000 Growth Index, an outperformance of 236 bps (188 basis points net of fees).

Both absolute and relative returns were solidly positive despite numerous undercurrents that have required careful navigation so far this year. Growth stocks continued to perform better than value stocks during the quarter and have now outperformed by 862 basis points year-to-date<sup>1</sup>. Valuation just hasn't mattered much this year, and this theme has infiltrated the growth universe as well, with the Russell 2000 Growth Index return driven by the highest P/E quintile and companies without earnings (such as biotech and software stocks). This is also reflected in ROE data; benchmark returns have been driven by the lower two ROE quintiles in 2018. In a portfolio populated with attractively valued (based on our above-consensus estimates) companies growing earnings beyond expectations, it's a backdrop that hasn't been particularly favorable, although one we were able to overcome through positive stock selection. From a capitalization perspective, small-cap stocks significantly outperformed large caps over the first half of 2018 but gave back nearly all of those gains in the third quarter<sup>2</sup>.

We believe concerns in the marketplace over a "trade war" influenced returns as investors have generally discounted an escalating situation by emphasizing investment in sectors and industries relatively less exposed to global trade. The year-to-date benchmark return was driven by the technology and healthcare sectors, while energy, materials, and producer durables were the clear losers. More interesting, technology and healthcare performance was acutely bolstered by industries perceived to be unscathed by tariffs, threatened or actual. Within tech, for example, software stocks returned nearly 39% so far in 2018 and 12% during the September quarter. Medical equipment stocks returned 61% and 24%, respectively, and biotechs, while not a huge driver in the quarter, returned 16% this year.

To us it seems like a relatively crowded trade at this point, with a consensus opinion that tensions will ratchet higher from here. Witness the following comment from JP Morgan in early October: "A full-blown trade war becomes our new base case scenario for 2019." Meanwhile, the Trump administration just completed a revamped trade agreement with Mexico and Canada, dubbed USMCA, suggesting to us the possibility that trade tensions may have actually peaked.

The elephant in the room now is clearly China. While we don't know when a deal will get done, we believe President Trump views himself first and foremost as a skilled deal-maker and ultimately – after all the bluster and rhetoric and threats – a deal we shall get. We think most underestimate Trump's desire to do a deal and overestimate the concessions necessary by China to reach an agreement. Look no further than the USMCA for supporting evidence, which The Brookings Institution labeled as "a new trade deal that looks remarkably similar to the old NAFTA." Trump's big win with Canada? Greater access to Canada's market for U.S. dairy products. If Trump can hold up a piece of paper with President Xi's signature it's a win for Trump with his support base – details be damned. The defensive posturing by investors could quickly and painfully unwind when it happens.

Despite trade fears, equity returns have been supported by continued economic strength in the U.S., and current economic data appear to support persistence into 2019. Corporate America, benefiting from tax reform and an accelerating economy, has posted record profits this year. The U.S. manufacturing Purchasing Managers' Index has remained solidly above 50 (suggesting expansion), and developed markets readings in Europe and Asia ex-China are similarly robust, although emerging markets readings have not been as solid and are flashing a warning signal. U.S. unemployment declined to 3.7% in September, and while wages are inflating as a result, the rate of wage increases remains muted relative to historical standards. The consumer has benefited, with incrementally more disposable income, record household net worth and historically low debt-service ratios.

The Federal Reserve's response is tighter monetary policy, executed through rate increases and a contracting balance sheet. The Fed's target is inflation; price spikes in emerging economies and a 21% increase in oil this year are warning signs, but overall inflation remains under control in the U.S. and throughout the developed world. A more rapid rise in rates and prices likely represents the biggest risk to equity markets as we enter 2019.

While macro factors can drive correlations toward one and influence stocks as a group in shorter time periods, we believe that investing in companies growing earnings beyond expectations results in superior investment performance over the long-term. Rather than ruminate about macro-economic indicators or geopolitical events, we focus on investing in individual businesses where we believe something fundamentally misunderstood or under-estimated is likely to drive earnings growth in excess of consensus expectations. While the multiple paid for such companies may oscillate in the short-run, we believe building portfolios populated with such companies leads to portfolio performance in excess of the benchmark over the long-term.

<sup>1</sup> During the quarter, the Russell 2000 Growth Index returned 5.52% versus 1.60% for the Russell 2000 Value Index, a differential of 392 basis points. Year-to-date, the Russell 2000 Growth Index returned 15.76% versus 7.14% for the Russell 2000 Value Index, a differential of 862 basis points

<sup>2</sup> During the quarter, the Russell 2000 Growth Index underperformed the Russell 1000 Growth Index by 365 basis points.

## Portfolio Highlights

As of September 30, 2018, the portfolio was 96.4% invested in 34 different positions. The portfolio had its largest weightings in healthcare (25.8% average weighting during the quarter versus 25.7% for the Russell 2000 Growth Index), technology (22.4% versus 16.1%), and consumer discretionary (16.2% versus 17.8%). The portfolio was most underweight producer durables (11.7% versus 15.5%), consumer staples (0.0% versus 2.5%), and utilities (0.0% versus 1.7%).

In the third quarter the portfolio performance was positively impacted by stock selection in healthcare (where our holdings returned 28.59% versus a 8.05% return for the benchmark's healthcare holdings), while performance was negatively impacted by stock selection in technology (-5.11% versus 8.97%) and consumer discretionary (1.48% versus 5.50%).

### PORTFOLIO CHARACTERISTICS

*(AS OF SEPTEMBER 30, 2018)*

Number of Stocks	34
Weighted Market Capitalization (in millions)	\$2,842
Median Market Capitalization (in millions)	\$2,120
P/E Forward 4 Quarters (estimated)	13.8x
Long-Term Future EPS Growth Rate (estimated)	11%
Long-Term Debt to Total Equity	10%
Return on Equity	8%
Cash Position	3.6%
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**

For more information please contact:

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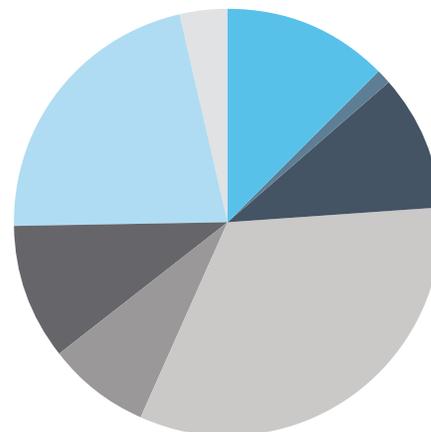
**TOP TEN HOLDINGS (as of September 30, 2018)**

Company		Line of Business
1	Atricure, Inc.	4.3% Develops treatments for irregular heartbeats and stroke prevention
2	Inogen, Inc.	4.2% Develops portable oxygen concentrators
3	Staar Surgical Co.	4.2% Develops implantable lenses for the eye to improve a patient's vision
4	Haemonetics Corp.	3.9% Develops plasma and blood collection systems
5	Skyline Champion Corp.	3.9% Designs and produces modular homes and RVs
6	Biotelemetry, Inc.	3.9% Provides cardiac monitoring services and products
7	Control 4 Corp.	3.7% Provides smart solutions for home entertainment, lighting, and security
8	Ligand Pharmaceuticals	3.6% Biopharmaceutical company focused on developing and acquiring novel drug technologies
9	Trex Company, Inc.	3.6% Manufactures non-wood decking products
10	LHC Group, Inc.	3.5% Provides post-acute health care services primarily to medicare beneficiaries

*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 September 30, 2018)**

Consumer Discretionary	12.5%
Consumer Staples	0.0%
Energy	1.3%
Financial Services	10.2%
Health Care	32.8%
Materials & Processing	7.8%
Producer Durables	10.2%
Technology	21.6%
Utilities	0.0%
Cash	3.6%
<b>Total</b>	<b>100.0%</b>



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

# CONCENTRATED SMALL-CAP GROWTH

3Q 2018

## AVERAGE ANNUAL TOTAL RETURNS (as of September 30, 2018)

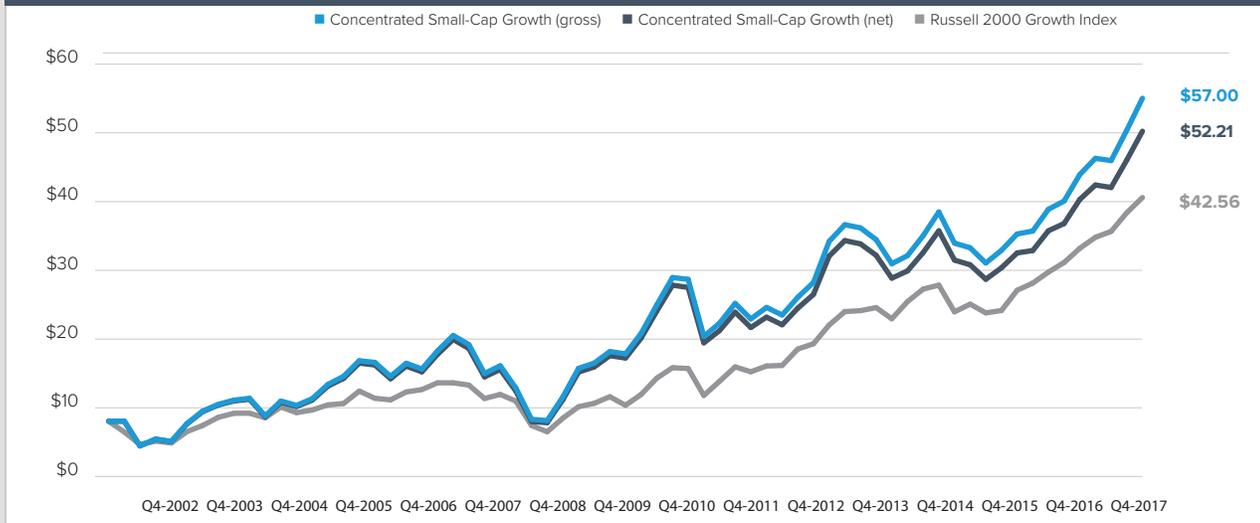
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 5/1/2002
<b>Concentrated Small-Cap Growth (gross of fees)</b>	<b>8.89%</b>	<b>18.12%</b>	<b>24.16%</b>	<b>16.64%</b>	<b>9.53%</b>	<b>14.41%</b>	<b>11.18%</b>
<b>Concentrated Small-Cap Growth (net of fees)</b>	<b>8.75%</b>	<b>17.64%</b>	<b>23.50%</b>	<b>16.00%</b>	<b>8.93%</b>	<b>13.76%</b>	<b>10.59%</b>
Russell 2000 Growth Index	5.52%	15.76%	21.06%	17.98%	12.14%	12.65%	9.37%

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 – September 30, 2018)



## 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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