

## SMALL-CAP VALUE STRATEGY

1Q 2019

### The Quarter in Review

The first quarter of 2019 rewarded investors with a strong rebound off the fourth quarter lows. This quarter's rally was an inverse of the fourth quarter, particularly favoring the worst-performing sectors of the prior quarter. Investors continue to weigh the uncertainty of ultimately securing a meaningfully positive trade agreement between the US and China. Separately, the Federal Reserve pivoted 180 degrees, catching the market off guard. These two macro items became especially impactful to the returns of cyclical value stocks. Amidst all this noise, small-cap stocks delivered a very nice positive return for investors in the first quarter of 2019. The Oberweis Small-Cap Value strategy delivered a 12.78% (12.55% net of fees) return compared to the Russell 2000 Value Index's return of 11.93%, an outperformance of 85 basis points (62 basis points net of fees). Our strategy tends to perform well when the investor spotlight focuses more on individual company fundamentals over global macro risks. In these environments, stock-specific signaling by management of a positive operating environment and/or an undervalued stock price becomes more tightly correlated to stock returns.

Small-cap value was one of the strongest asset classes out of the gate in 2019, though growth outperformed strongly in the second half of the quarter. The strong start was almost wholly a reversal of the extremely oversold 4Q18 conditions. Actual 4Q earnings reports were much healthier than market expectations, a pleasant contrast from the dismal outlook and recessionary fears that had driven small-cap value equity valuations to historically low levels as of the beginning of the year. Reality was not nearly so dreadful, and that brought a much welcome lift to small-value to start the year. The full quarter's strong performance was dampened in the second half over concerns of lackluster growth in Europe and continued US/China trade tensions. Specifically, some investors feared that cyclicals, in particular, would not continue to deliver earnings growth. However, with the conclusion of the first earnings season, revenue and earnings appear to remain intact.

When the market is so intensely focused on growth of some sort – revenues, earnings, or margins – it is not unusual for those companies who fail to generate such growth in the near term to be punished by the market, even when that bump may be temporary. Our disciplined and diligent focus on behavioral mispricing signals, balanced with a focus on businesses with high certainty of long-term viability, leads to the construction of a less volatile portfolio supported by profitable, growing, lower leverage companies. In the short run, stock prices are often influenced by macroeconomic events, overall economic growth, and investor risk appetite. However, in the long run, portfolio returns mostly reflect the business performance of the underlying holdings. We believe, and our research shows, that our application of a disciplined approach that combines behavioral signaling and traditional fundamental value analysis is likely to outperform the market over time.

## Portfolio Highlights

As of March 31, 2019, the portfolio was 98.7% invested in 85 different positions. The portfolio had its largest weights in Financial Services (39.1% versus 40.7% for the benchmark), Producer Durables (14.9% versus 11.2%), and Technology (13.3% versus 10.8%). The portfolio beat the benchmark in 6 of 9 sectors. During the quarter, the portfolio was positively impacted by stock selection in three main sectors Producer Durables (our holdings in this sector returned 16.58% versus 9.60% for those in the benchmark), Materials Processing (19.06% versus 17.13%), and Consumer Discretionary (10.55% versus 9.82%). Return was adversely impacted by stock selection in Financial Services (10.01% versus 10.54%) and Technology (16.55% versus 18.74%).

In terms of attribution, while Producer Durables, Materials, and Consumer Discretionary were our three best contributors, even though their more cyclical nature led to muted performance near the quarter's end, when cyclicals struggled. Despite their sensitivity to trade and interest rate risks, we remain overweight these sectors because many constituents show signs of above-average positive behavioral signaling. We are finding numerous instances of stock repurchases and/or insider buying, positive management commentary, and better-than-expected quarterly earnings, often in industries where investor expectations are not currently particularly favorable. Accordingly, many of our favored holdings continue to be concentrated in producer durables, materials, and technology, and this is reflected in our strategy weights relative to the benchmark.

### PORTFOLIO CHARACTERISTICS

(AS OF MARCH 31, 2019)

Number of Stocks	85
Weighted Market Capitalization (in millions)	\$2,683
Median Market Capitalization (in millions)	\$2,286
P/E Forward 4 Quarters (estimated)	14.1x
Long-Term Future EPS Growth Rate (estimated)	4.5%
Long-Term Debt to Total Equity	17.7%
Return on Equity	8.2%
Cash Position	1.3%

Source: Thomson Reuters Eikon

## Key Benefits

The Small-Cap Value strategy seeks to achieve its objective by making intermediate and long-term investments in domestic, publicly-traded equity securities of small capitalization companies. The strategy primarily invests in companies based in the United States with market capitalization of up to \$3 billion.

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

- Potential for significant alpha over a full market cycle
- Disciplined and repeatable investment process managed by a passionate and experienced investment team
- Research process specifically designed to efficiently discover smaller cap companies that are undervalued by traditional Wall Street research analysts and market participants
- Exposure to undervalued smaller cap companies offering the potential for upside as a result of the markets misinterpretation or misunderstanding of positive information signals like stock repurchase activity, dividend increases and merger activity
- Diversified portfolio with a focus on risk management

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

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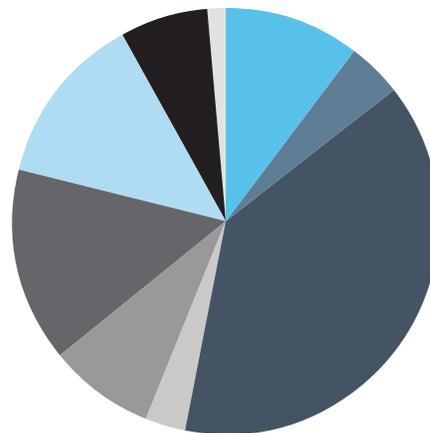
**TOP TEN HOLDINGS (as of March 31, 2019)**

Company		Line of Business
1	Portland General Electric Co. 2.8%	Public utility company based in Portland, Oregon
2	Old National Bancorp 2.6%	Multi-bank holding company operating in Indiana, Illinois, Ohio, Kentucky, and Tennessee
3	Physicians Realty Trust 2.5%	Self managed healthcare real estate company recently organized to acquire, selectively develop, own, and manage healthcare properties that are leased to physicians, hospitals, and healthcare delivery systems
4	Williams-Sonoma, Inc. 2.5%	Retailer of high-end home goods under Williams-Sonoma, West Elm, Pottery Barn and other retail chains
5	Central Pacific Financial Corp. 2.4%	Banking services and products operating in Hawaii
6	Associated Banc-Corp. 2.3%	Midwest banking franchise headquartered in Green Bay, Wisconsin
7	Verint Sys Inc. 2.2%	Analytic solutions for communications, interception, digital video security and surveillance, and enterprise business intelligence
8	Simmons First National Corp. 2.1%	Regional bank holding company offering residential and commercial services that operates in Arkansas, Texas, and Oklahoma
9	Triumph Group, Inc. 2.0%	Designs, engineers, manufactures, and repairs aircraft components and services various original equipment manufacturers such as Boeing and Bombardier
10	New Jersey Re Corp. 2.0%	Utility providing retail and wholesale energy services and primarily serving customers in central and northern New Jersey

*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, 2019)**

Consumer Discretionary	10.4%
Consumer Staples	0.0%
Energy	4.1%
Financial Services	38.6%
Health Care	3.2%
Materials & Processing	7.9%
Producer Durables	14.7%
Technology	13.1%
Utilities	6.7%
Cash	1.3%
<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, 2019)**

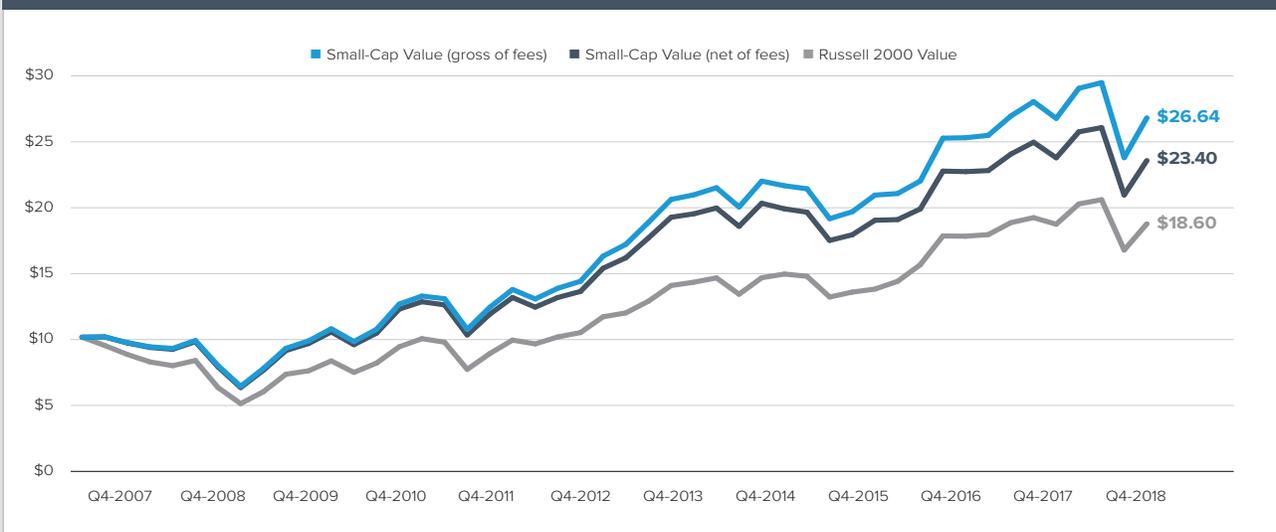
	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception (7/31/2007)
<b>Small-Cap Value (gross of fees)</b>	<b>12.78%</b>	<b>0.14%</b>	<b>8.64%</b>	<b>5.08%</b>	<b>15.55%</b>	<b>8.76%</b>
<b>Small-Cap Value (net of fees)</b>	<b>12.55%</b>	<b>-0.91%</b>	<b>7.44%</b>	<b>3.86%</b>	<b>14.23%</b>	<b>7.56%</b>
Russell 2000 Value Index	11.93%	0.17%	10.86%	5.59%	14.12%	6.27%

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 fully discretionary accounts with a minimum value of \$5 million. Performance returns prior to October 2, 2017 were derived from another registered investment advisor. Accounts are dollar-weighted within the composite and reported in U.S. dollars.

The Russell 2000 Value Index is an unmanaged market capitalization-weighted index of value-oriented stock of U.S. domiciled companies that are included in the Russell 2000 Index. Value-oriented stocks tend to have lower price-to-book ratios and lower forecasted growth values.

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](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 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 MILLION — WITH INCOME INVESTED (July 31, 2007 – March 31, 2019)**

**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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