

## CONCENTRATED SMALL-CAP GROWTH STRATEGY

2Q 2019

### The Quarter in Review

The Oberweis Concentrated Small-Cap Growth Composite returned 5.94% (5.79% net of fees) during the June quarter versus a 2.75% return for the benchmark Russell 2000 Growth Index, an outperformance of 319 bps (304 basis points net of fees). Year-to-date, the Composite returned 16.88% (16.56% net of fees) versus 20.36% for the Russell 2000 Growth Index.

Growth stocks outperformed value stocks during the quarter and so far this year, and large-cap stocks performed much better during the quarter and slightly better year-to-date. Generally speaking, small-cap stocks have dramatically underperformed large caps since June 2018, and now look cheap on a relative basis. According to Jefferies small-cap strategist Steven DeSanctis, the Russell 2000 trades at a high-teens percentage relative discount to the Russell 1000 (compared to the long-term average) on price/book, price/sales, and trailing P/E.

Despite the sizable bounce in equities thus far in 2019, investors remain concerned that sustained trade tensions and uncertainties are contributing to weakening economic readings worldwide. U.S. real GDP growth is expected to decelerate to an anemic 1.5%<sup>1</sup> in the second quarter, and the latest Manufacturing Purchasing Managers Index readings signaled contraction<sup>2</sup> in China, Japan, Taiwan, Korea, Germany, the U.K., Italy, and Spain. Interestingly, the U.S. PMI in June still signaled modest expansion with a reading of 50.6.

Sentiment as measured by multiple indicators is persistently negative and aggregated investor activity is increasingly defensive as economic activity slows globally and the trade war with China hangs over the market like an unabating dark cloud. According to Bank of America Merrill Lynch, investors are almost universally calling a top in the market and the economy, with a record 87% of respondents labeling the economy as “late cycle” and just 10% expecting interest rates to rise over the next year (compared to 63% in November, 2018). Merrill’s most recent global fund manager survey was the most bearish since the Global Financial Crisis in 2008 and showed a large rotation in June into defensive plays such as bonds, cash, staples, and utilities, and out of equities, where fund outflows have eclipsed \$50 billion year-to-date. According to research by JP Morgan, defensive issues are as expensive relative to cyclicals as they have been since 2014.

The money has flowed into “safe havens” such as gold, which gained 9.2% during the quarter, and government bonds, which roared to multi-year highs. The U.S. 10-year Treasury yield dropped below 2% late in the quarter, down over 120 basis points since last November as rate cuts by the Federal Reserve are expected as soon as July. Ten-year yields are negative again in Germany, and even Greek 10-year bonds have rallied to the point that they inexplicably yield only about 25 basis points more than similarly termed U.S. paper.

We find it difficult and almost futile to determine if the pervasive recessionary fears in the market are justified, and the historical track record of economists, investors, and the market successfully predicting a recession is notoriously poor. In our experience, consensus expectations are often wrong and market tops typically occur when optimism is robust and valuations are high. Fortunately, we believe valuations among small-cap stocks are currently fair (neither cheap nor expensive by historical norms), and we continue to find a typical number of new investment ideas where a significant positive earnings surprise signals that a company’s underlying fundamentals are misunderstood or underestimated.

<sup>1</sup> According to the Federal Reserve Bank of Atlanta forecasts.

<sup>2</sup> Readings under 50 signal a contraction of economic activity.

## The Quarter in Review (continued)

In our opinion, the volatility witnessed in the market since last autumn represents a case study about the perils of making investment decisions based on “macro” factors. Sentiment and equity prices have oscillated based on near-term interpretations of macro-level risks that are largely unchanged. While sentiment may swing wildly in the short-run in response to tweets, headlines, and TV soundbites, our bottom-up investment strategy focuses instead on companies demonstrating better-than-expected earnings power driven by transformational change. The P/E multiples afforded such companies may vary from quarter to quarter, but we believe a diversified portfolio of these investments is likely to outperform the market over the longer-term.

## Portfolio Highlights

As of June 30, 2019, the portfolio was 95.5% invested in 29 different positions. The portfolio had its largest over-weightings in technology (28.1% average weighting during the quarter versus 16.9% for the Russell 2000 Growth Index), health care (28.7% versus 25.1%), and materials (10.7% versus 7.1%). The portfolio was most underweight financial services (2.9% versus 10.8%), producer durables (11.3% versus 15.8%), and consumer discretionary (14.1% versus 18.2%).

In the second quarter the portfolio performance was positively impacted by stock selection in consumer discretionary (where our holdings returned 16.79% versus a 1.81% return for the benchmark’s consumer discretionary holdings), while performance was negatively impacted by stock selection in financial services (-17.71% versus 3.35%).

## 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**

### PORTFOLIO CHARACTERISTICS

(AS OF JUNE 30, 2019)

Number of Stocks	29
Weighted Market Capitalization (in millions)	\$2,351
Median Market Capitalization (in millions)	\$1,726
P/E Forward 4 Quarters (estimated)	12.2x
Long-Term Future EPS Growth Rate (estimated)	39.3%
Long-Term Debt to Total Equity	10.6%
Return on Equity	5.9%
Cash Position	4.5%
Portfolio Turnover (2018)	73.0%

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](mailto:brian.lee@oberweis.net)

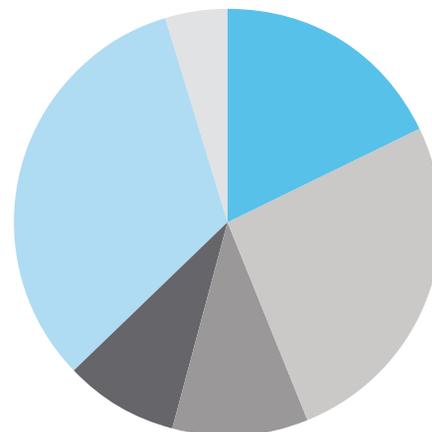
**TOP TEN HOLDINGS (as of June 30, 2019)**

Company		Line of Business
1	Skyline Champion Corp.	6.2% Designs and produces modular homes and RVs
2	Tandem Diabettes Care, Inc.	5.2% Develops pump systems for diabetes patients
3	Skywest, Inc.	4.5% Operates a regional airline
4	Deckers Outdoor Corp.	4.4% Designs and markets footwear and accessories
5	Carbonite, Inc.	4.2% Provides data protection services
6	Atricure, Inc.	4.1% Develops treatments for irregular heartbeats and stroke prevention
7	HMS Holdings Corp.	4.1% Provides cost containment services for commercial and government healthcare payors
8	Altair Engineering, Inc.	3.9% Provides software solutions used in product development
9	Vericel Corp.	3.9% Develops cell therapy products for the treatment of patients in the sports medicine and burn care markets
10	Trex Company, Inc.	3.8% Manufactures non-wood decking products

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 June 30, 2019)**

Consumer Discretionary	18.0%
Consumer Staples	0.0%
Energy	0.0%
Financial Services	0.0%
Health Care	26.0%
Materials & Processing	10.3%
Producer Durables	8.7%
Technology	32.5%
Utilities	0.0%
Cash	4.5%
<b>Total</b>	<b>100.0%</b>



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

# CONCENTRATED SMALL-CAP GROWTH

2Q 2019

## AVERAGE ANNUAL TOTAL RETURNS (as of June 30 2019)

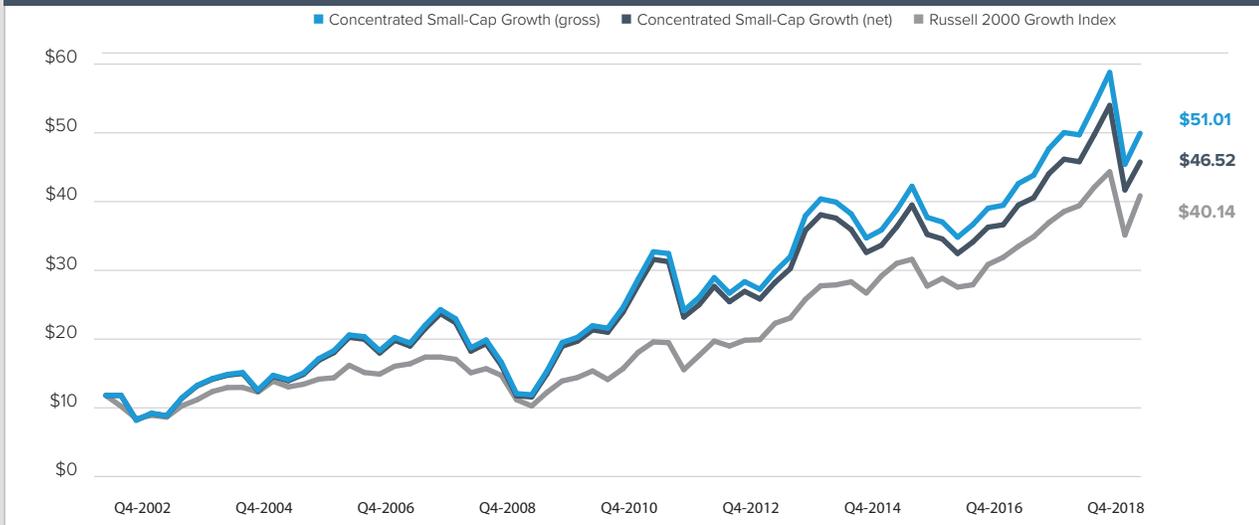
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 5/1/2002
<b>Concentrated Small-Cap Growth (gross of fees)</b>	<b>5.94%</b>	<b>16.88%</b>	<b>-2.57%</b>	<b>13.51%</b>	<b>6.96%</b>	<b>14.17%</b>	<b>9.96%</b>
<b>Concentrated Small-Cap Growth (net of fees)</b>	<b>5.79%</b>	<b>16.56%</b>	<b>-3.12%</b>	<b>12.89%</b>	<b>6.37%</b>	<b>13.47%</b>	<b>9.37%</b>
Russell 2000 Growth Index	2.75%	20.36%	-0.49%	14.69%	8.63%	14.41%	8.57%

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 MILLION — WITH INCOME INVESTED (May 1, 2002– June 30, 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.

[MEET THE TEAM](#)