

SMALL-CAP VALUE STRATEGY

2Q 2019

The Quarter in Review

The second quarter of 2019 underscores the cyclical sensitivity of small cap value as an asset class. Small-cap value, as measured by the Russell 2000 Value Index, returned just 1.38% for the quarter, while the Oberweis Small-Cap Value strategy returned 0.05% (-0.17% net of fees). On an absolute basis, the strategy return remains positive at 12.84% (12.36% net of fees) yet was still bested by the benchmark return of 13.47%. Our strategy tends to carry a style bias that is even more value-oriented than our benchmark. As a result, we generally expect the strategy to perform well when value outperforms growth, but face headwinds when growth outperforms, as was the case this quarter. Indeed, much of the past decade has been a story of growth outperformance relative to value, but this has not been the case over longer periods of time. Growth/value leadership runs in cycles, and eventually the pendulum will shift again back toward value. Some argue that this shift is already overdue, and our strategy is likely to benefit when value falls back into favor. Despite the many macro event headlines that drive short-term returns, our focus remains on finding individual small-caps with positive behavioral signaling, attractive valuations and improving fundamentals. We believe that focusing our efforts on individual less-followed companies is more likely to generate alpha over a full market cycle than trying to predict widely-watched macro data points.

In the second quarter, Fed Chairman Jerome Powell continued to strengthen his messaging around the potential for an interest rate cut in 2019. With financials comprising 41% of the Russell 2000 Value Index, this helps to explain some of the benchmark's recent underperformance relative to growth. A cut in interest rates tends to dampen bank net interest margins. Further, with curtailed expectations for GDP growth and late business cycle concerns, banks may face slower loan growth ahead. Regional banks, where we carry a higher weight than the index, were particularly hard hit. Similarly, producer durables comprise 12% of the benchmark. While producer durables will benefit from a lower interest expense on debt, that benefit will be more than offset by tariffs and potentially slower GDP growth. Global tensions centered around US/China relations have raised uncertainties about everything from supply chain disruption to consumer affordability. In short, small-cap value has higher exposure than growth to some of the most cyclically-sensitive industries, where business could become more challenging in the quarters to come.

Outlook

Equity investor 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.

That being said, corporations and executives of some affected companies are signaling that share price drops may be overdone, and we believe the market may be underestimating the resiliency of many of these companies, and of the US economy's, ability to grow moderately. The stock market is a game of performance relative to expectations, and we look for opportunities where expectations have, due to human nature, been disproportionately beaten down. Accordingly, we are modestly overweight in certain producer durables and materials sector stocks which have signaled the potential for mispricing. We believe these tilts may pay off as tensions ease and those companies demonstrate that their business is better than expected.

Our primary goal is to find stocks with such behavioral signaling and we believe there are an above average number of those opportunities today. If insider activity is an indicator, then buying during the most recent quarter should be encouraging as it delivered a level of buying nearly double the seven-year average. Our holdings reflect that insider sentiment, with 82% of our stocks possessing signals which we believe lead to positive long-term performance. Over time 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 should become more tightly correlated to stock returns.

In terms of valuations, the forward P/E for the Russell 2000 Value Index was 15.29 at quarter end versus a 25-year median of 17.07. Other well-known multiples such as P/B, P/S, and P/EBITDA are far from being considered stretched, running at their 25-year medians. While many tend to move toward "what's been working lately", we've found that sometimes the best moments for investment strategies are when they are most out of favor, especially when the long-term data supports the strategy's foundational thesis.

Portfolio Highlights

As of June 30, 2019, the portfolio was 99.9% invested in 78 different positions. The portfolio had its largest weights in Financial Services (37.7% versus 41.6% for the benchmark), Producer Durables (15.1% versus 11.5%), and Technology (12.7% versus 10.9%). During the quarter, the portfolio experienced positive stock selection in three main sectors Producer Durables (our holdings in this sector returned 11.17% versus 6.53% for those in the benchmark), Health Care (2.42% versus -4.53%), and Materials & Processing (4.65% versus 0.75%). Return was most adversely impacted in Financial Services (1.28% versus 4.10%), Technology (-7.45% versus 0.06%), and Energy (-25.56% versus -7.40%).

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

PORTFOLIO CHARACTERISTICS

(AS OF JUNE 30, 2019)

Number of Stocks	78
Weighted Market Capitalization (in millions)	\$2,901
Median Market Capitalization (in millions)	\$2,415
P/E Forward 4 Quarters (estimated)	12.6x
Long-Term Future EPS Growth Rate (estimated)	4.6%
Long-Term Debt to Total Equity	15.9%
Return on Equity	8.5%
Cash Position	0.1%

Source: Thomson Reuters Eikon

For more information please contact:

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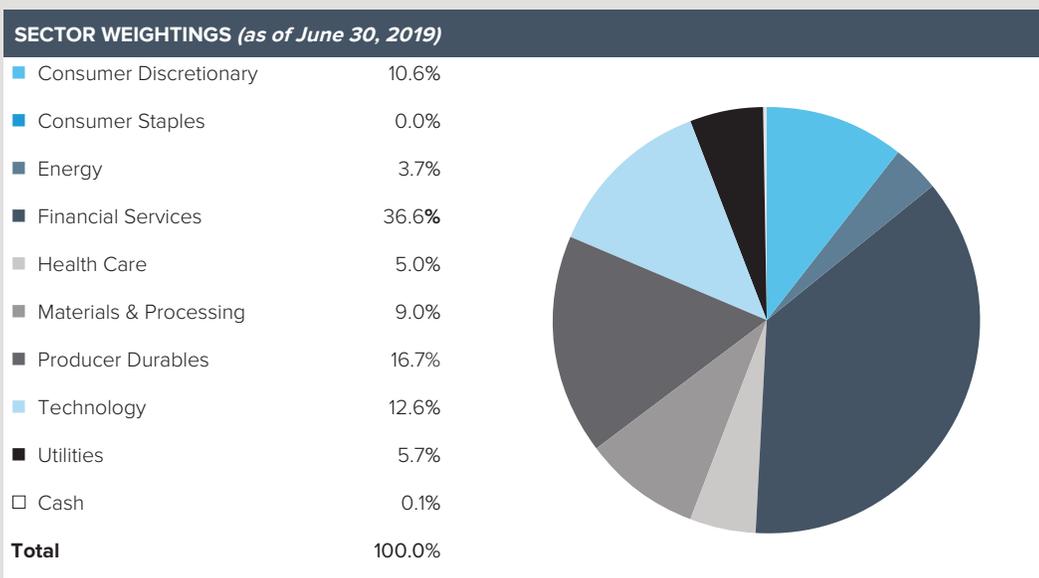
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TOP TEN HOLDINGS (as of June 30, 2019)		
Company		Line of Business
1 Williams-Sonoma, Inc.	3.2%	Retailer of high-end home goods under Williams-Sonoma, West Elm, Pottery Barn and other retail chains
2 Central Pacific Financial Corp.	2.9%	Banking services and products operating in Hawaii
3 Old National Bancorp.	2.9%	Multi-bank holding company operating in Indiana, Illinois, Ohio, Kentucky, and Tennessee
4 Physicians Realty Trust	2.6%	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
5 Triumph Group, Inc.	2.5%	Designs, engineers, manufactures, and repairs aircraft components and services various original equipment manufacturers such as Boeing and Bombardier
6 Ryman Hospitality Properties, Inc.	2.1%	Real Estate Investment Trust that specializes in group-oriented and destination hotel assets in urban resort markets
7 Timken Company	2.1%	Manufactures and distributes tapered roller bearings and other ball-bearings
8 CACI International, Inc.	1.9%	Provides information technology products and services
9 Southwest Gas Corp.	1.9%	Operates as a holding company that provides natural gas operation, construction & distribution services
10 Hancock Whitney Corp.	1.8%	Operates bank offices and financial centers

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

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

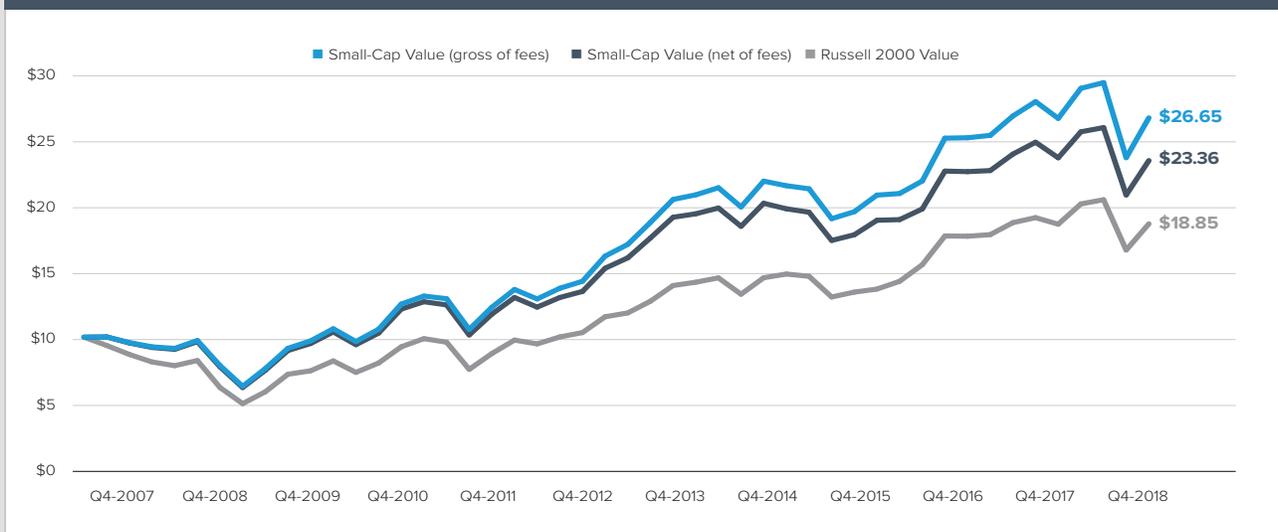
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception (7/31/2007)
Small-Cap Value (gross of fees)	0.05%	12.84%	-7.70%	8.45%	4.54%	13.33%	8.57%
Small-Cap Value (net of fees)	-0.17%	12.36%	-8.67%	7.28%	3.36%	12.04%	7.38%
Russell 2000 Value Index	1.38%	13.47%	-6.24%	9.81%	5.39%	12.40%	6.26%

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 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 – 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.

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