Oberweis
Asset Management

SMALL-CAP OPPORTUNITIES STRATEGY

2Q 2019

The Quarter in Review

The Oberweis Small-Cap Opportunities Composite returned 3.39% (3.22% net of fees) during the third quarter versus a 2.75% return for the benchmark Russell 2000 Growth Index, an outperformance of 64 bps (47 basis points net of fees). Year-to-date, the Composite returned 21.35% (20.96% net of fees) versus 20.36% for the Russell 2000 Growth Index, a positive differential of 99 basis points (60 basis points net of fees).

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%[1] in the second quarter, and the latest Manufacturing Purchasing Managers Index readings signaled contraction[2] 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.

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.

[1] According to the Federal Reserve Bank of Atlanta forecasts.
[2] Readings under 50 signal a contraction of economic activity.

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Portfolio Highlights

As of June 30, 2019, the portfolio was 95.7% invested in 76 different positions. The portfolio had its largest over-weightings in technology (28.3% average weighting during the quarter versus 16.9% for the Russell 2000 Growth Index), producer durables (19.3% versus 15.8%), and materials (9.4% versus 7.1%). The portfolio was under-weight in health care (17.6% versus 25.1%), consumer discretionary (13.0% versus 18.2%), and financial services (6.2% versus 10.8%).

Performance in the third quarter was positively impacted by stock selection in materials (where our holdings returned 17.71% versus a 6.41% return for the benchmark's materials holdings), health care (3.84% versus 0.10%), producer durables (10.46% versus 8.66%), and energy (4.04% versus -8.97%). Performance was negatively impacted by stock selection in financial services (-8.70% versus 3.35%).

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 JUNE 30, 2019)

Number of Stocks	76
Weighted Market Capitalization (in millions)	$2,786
Median Market Capitalization (in millions)	$2,455
P/E Forward 4 Quarters (estimated)	16.6x
Long-Term Future EPS Group Rate (estimated)	7.4%
Long-Term Debt to Total Equity	14.1%
Return on Equity	6.7%
Cash Position	4.3%
Portfolio Turnover (2018)	160.0%

Source: Thomson Reuters Eikon

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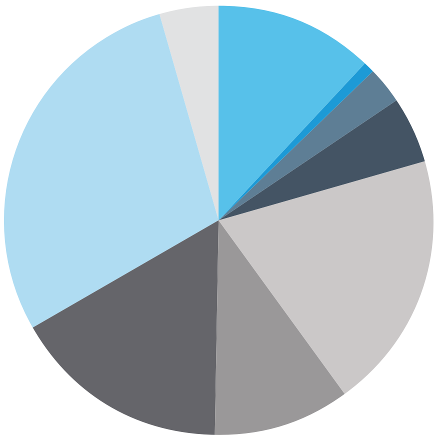
TOP TEN HOLDINGS *(as of June 30, 2019)*

	Company		Line of Business
1	DMC Global, Inc.	3.4%	Global technology company that offers collaboration, research, development, and other services
2	CACI International, Inc.	2.5%	Provides IT services and technology products primarily to US government agencies
3	Bandwidth, Inc.	2.4%	Develops cloud-based communications platforms
4	HMS Holdings Corp.	2.4%	Provides cost containment services for commercial and government healthcare payors
5	Cornerstone Ondemand, Inc.	2.3%	Provider of employee development software
6	Tandem Diabetes Care, Inc.	2.2%	Develops pump systems for diabetes patients
7	Vericel Corp.	2.2%	Develops cell therapy products for the treatment of patients in the sports medicine and burn care markets
8	Altair Engineering, Inc.	2.1%	Provides simulation technologies and services
9	Sanmina Corporation	2.0%	Provides electronics contract manufacturing services
10	Oshkosh Corp.	2.0%	Designs and manufactures specialty commercial trucks and parts

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	12.1%
Consumer Staples	0.7%
Energy	3.0%
Financial Services	4.8%
Health Care	19.4%
Materials & Processing	10.3%
Producer Durables	16.5%
Technology	28.9%
Utilities	0.0%
Cash	4.3%
Total	100.0%



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

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AVERAGE ANNUAL TOTAL RETURNS *(as of June 30, 2019)*	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception (9/15/1996)
Small-Cap Opportunities (gross of fees)	**3.39%**	**21.35%**	**4.72%**	**17.59%**	**10.53%**	**16.14%**	**9.10%**
Small-Cap Opportunities (net of fees)	**3.22%**	**20.96%**	**3.87%**	**16.77%**	**9.86%**	**15.41%**	**8.31%**
Russell 2000 Growth Index	2.75%	20.36%	-0.49%	14.69%	8.63%	14.41%	7.00%

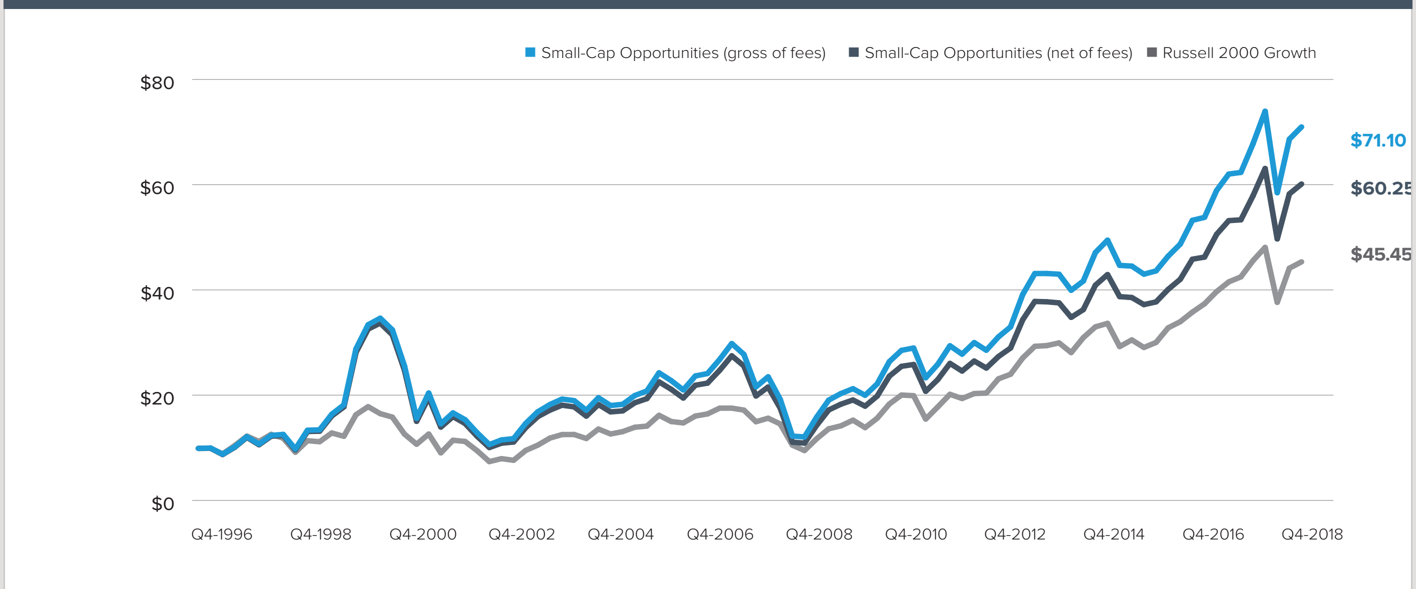
Oberweis Asset Management, Inc. ("OAM") is an independent investment management firm that is not affiliated with any parent organization. The composite returns are comprised of all fully discretionary accounts with a minimum value of $2.5 million. Performance results, from 1-1-97 to 12-31-03 and from 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 MILLION — WITH INCOME INVESTED ***(September 15, 1996– June 30, 2019)***



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.

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