

SMALL-CAP OPPORTUNITIES STRATEGY

3Q 2019

The Quarter in Review

The Oberweis Small-Cap Opportunities Composite returned -4.57% (-4.75% net of fees) during the third quarter versus a -4.17% return for the benchmark Russell 2000 Growth Index, a shortfall of 40 basis points (58 basis points net of fees).¹ Year-to-date, the Composite returned 15.81% (15.21% net of fees) versus 15.34% for the Russell 2000 Growth Index.

We faced multiple headwinds during a challenging environment for our investment style in the third quarter. Small-cap value stocks outperformed their growth cousins by 360 basis points during the quarter and have closed the gap year-to-date. During the quarter, investors shifted preference from innovative companies with the potential for exceptional earnings growth to value-oriented companies with more reliable near-term earnings and cash flow. GICS sectors such as real estate, staples, and utilities – areas where we have minimal exposure in the portfolio – were the benchmark's leaders over the past three months. Because of our focus on companies with the potential for largely misunderstood long-term earnings growth, our portfolio does carry positive exposure to what Barra calls its "Momentum" factor, which experienced a significant contraction beginning in August. In fact, the move was so significant that MSCI noted the momentum-value factor spread saw one of the largest corrections in history over the summer. Aversion to growth was confirmed by sales growth data; the top two sales growth quintiles in the Russell 2000 Growth Index, which is our primary fishing pond, performed the worst during the quarter. This in particular showed up in our high-sales-growth software and healthcare holdings, which experienced notable multiple compression. We clearly witnessed a spike in risk-aversion during the quarter, with investors shunning small-cap stocks (along with other risky assets) amidst a continued uncertain and hazy economic climate.

Underlying macro concerns in the marketplace were surprisingly consistent, which unfortunately suggests that not much has improved. Trade tensions with China remain front-and-center, with the market reacting wildly at times to the latest Tweet, rumor, or unnamed source. All we know for certain at this point is the trade dispute with China has evolved into a quagmire with seemingly no end in sight, and it's increasingly possible the Chinese will soon choose to wait out the 2020 U.S. election in the hope that a potential Democratic successor to President Trump will soften the American position.

We believe the uncertainty surrounding trade policy and the magnitude of tariffs now faced by American companies is impacting corporate profits, the economy, and investor risk appetite for small-cap stocks. Management teams we interact with routinely sight challenges in managing their business against a backdrop of the scattered and unpredictable "Trade Policy by Tweet" from the Trump administration. Pervasive uncertainty – exemplified by announced tariffs that are later delayed – is finally showing in slowing economic data. U.S. real GDP growth is projected to be a lackluster 1.8% in the third quarter, and the September ISM Manufacturing survey reading of 47.8 was the lowest since June of 2009 and implies manufacturing contracted for the second consecutive month. Sub-50 readings were also posted in Japan, Korea, Mexico, Russia, and throughout much of Europe, headlined by a distressing 41.7 measure in Germany.

Under the cover of controlled inflation, the Federal Reserve responded with more accommodative monetary policy, cutting rates twice during the quarter for the first time since 2008 and suspending its balance sheet reduction strategy. Fed funds futures project additional rate cuts as we conclude 2019 and move into 2020. U.S. 10-year yields declined from 2.00% to 1.68% during the quarter, and are now 100 basis points lower than where they finished 2018. Similar duration government bonds in Germany and Japan have negative yields.

Absent an imminent recession resulting in a sizable decline in corporate profits, equity valuations continue to look reasonable, particularly relative to historically low bond yields. We find it difficult and almost futile to predict if recessionary storm clouds are upon us, supported by the old adage that "economists have predicted nine out of the last five recessions." While multiple economic readings have recently softened, the U.S. economy went through a similar soft-patch in 2016 that resulted in a "profits recession" before growth resumed again. The difference this time, of course, is trade. We fear any escalation of trade tensions between China and the U.S. could turn a reasonably healthy soft patch into a full-blown recession. However, the elevated risk aversion witnessed during the quarter – particularly in the small-cap portion of the U.S. equity market – means at least some of this heightened caution on the part of investors has been discounted.

Fortunately and despite a murkier macro picture, we continue to find a typical number of new investment ideas where a significant positive earnings surprise is supported by underlying company fundamentals that seem to be misunderstood or underestimated by other investors. Typically it is periods of heightened fear that represent the best times to invest in this strategy and offer the highest levels of appreciation potential. While sentiment and equity prices may oscillate wildly in the short-run in response to the latest macro headline, we believe our investment approach instead focuses on companies generating better-than-expected earnings power driven by transformational change. The P/E multiple investors are willing to pay for these companies may vary from quarter to quarter, but we believe a diversified portfolio of these investments is likely to yield enhanced returns over the long-term.

¹During the quarter, the Russell 2000 Value Index returned -0.57% versus -4.17% for the Russell 2000 Growth Index.

Portfolio Highlights

As of September 30, 2019, the portfolio was 94.6% invested in 71 different positions. The portfolio had its largest over-weightings in technology (28.3% average weighting during the quarter versus 16.8% for the Russell 2000 Growth Index), producer durables (18.4% versus 16.4%), and materials (8.8% versus 6.6%). The portfolio was under-weight in health care (17.8% versus 27.8%), financial services (6.3% versus 11.1%), and utilities (0.0% versus 3.0%).

Performance in the third quarter was negatively impacted by stock selection in materials (where our holdings returned -5.91% versus a -0.60% return for the benchmark's materials holdings), health care (-15.30% versus -9.73%), and energy (-20.84% versus -9.39%). Performance was positively impacted by our stock selection in consumer discretionary (-2.11% versus -2.95%), producer durables (0.13% versus -0.76%), and technology (-3.38% versus -4.04%).

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 SEPTEMBER 30, 2019)

Number of Stocks	71
Weighted Market Capitalization (in millions)	\$2,733
Median Market Capitalization (in millions)	\$2,447
P/E Forward 4 Quarters (estimated)	14.8x
Long-Term Future EPS Group Rate (estimated)	9.0%
Long-Term Debt to Total Equity	13.0%
Return on Equity	7.3%
Cash Position	5.4%
Portfolio Turnover (2018)	160.0%

Source: Thomson Reuters Eikon

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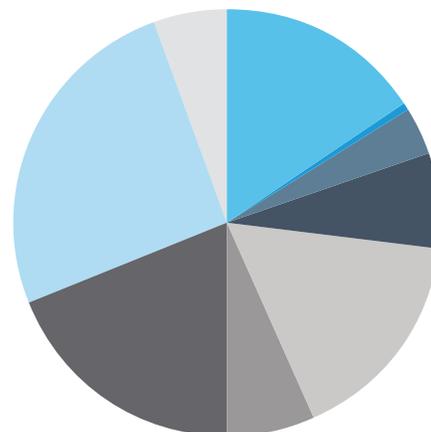
TOP TEN HOLDINGS (as of September 30, 2019)

Company		Line of Business
1	CACI International, Inc.	3.0% Provides IT services and technology products primarily to US government agencies
2	HMS Holdings Corp.	2.7% Provides cost containment services for commercial and government healthcare payors
3	WW International, Inc.	2.4% Offers weight control programs under the Weight Watchers brand
4	Bandwidth, Inc.	2.2% Develops cloud-based communications platforms
5	Tetra Tech, Inc.	2.1% Provides specialized management consulting and technical services
6	Cornerstone OnDemand, Inc.	2.0% Provider of employee development software
7	Skywest, Inc.	2.0% Operates a regional airline
8	DMC Global, Inc.	1.9% Global technology company that offers collaboration, research, development, and other services
9	Tandem Diabetes Care, Inc.	1.9% Develops pump systems for diabetes patients
10	Knowles Corp.	1.9% Designs and manufactures advances acoustic components used in consumer electronics

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, 2019)

Consumer Discretionary	15.8%
Consumer Staples	0.5%
Energy	3.6%
Financial Services	7.1%
Health Care	16.4%
Materials & Processing	6.7%
Producer Durables	18.8%
Technology	25.7%
Utilities	0.0%
Cash	5.4%
Total	100.0%



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

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

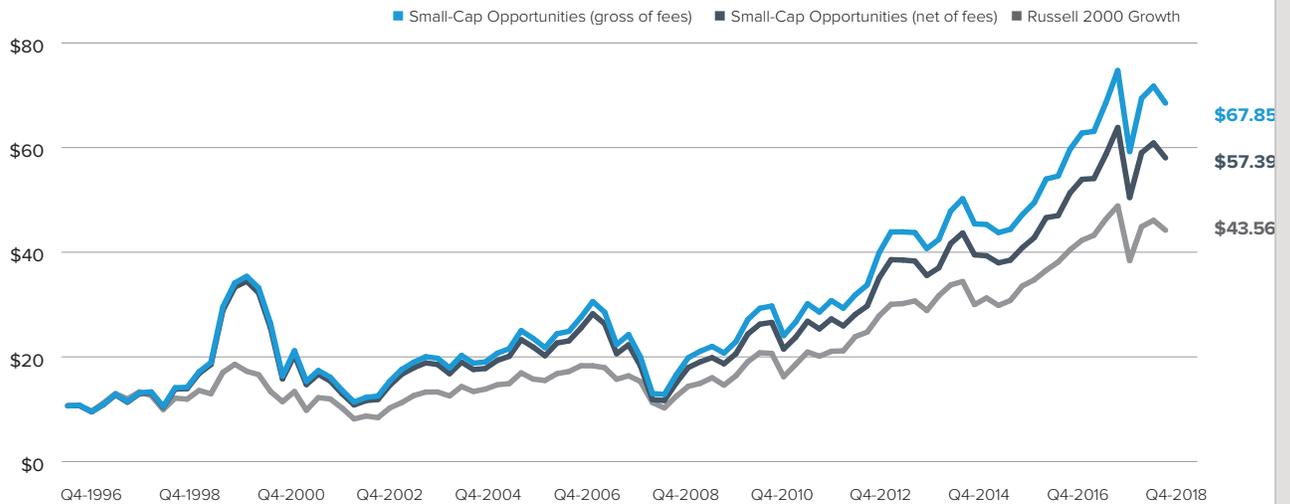
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception (9/15/1996)
Small-Cap Opportunities (gross of fees)	-4.57%	15.81%	-8.41%	13.40%	11.12%	13.47%	8.77%
Small-Cap Opportunities (net of fees)	-4.75%	15.21%	-9.20%	12.58%	10.46%	12.74%	7.98%
Russell 2000 Growth Index	-4.17%	15.34%	-9.63%	9.79%	9.08%	12.25%	6.72%

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– September 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.

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