Oberweis
Asset Management

SMALL-CAP OPPORTUNITIES STRATEGY

2Q 2020

The Quarter in Review

The Oberweis Small-Cap Opportunities Composite returned 31.11% (30.94% net of fees) in the second quarter of 2020 compared to 30.58% for the Russell 2000 Growth Index, an outperformance of 58 basis points (36 basis points net of fees). Year-to-date, the Composite returned -2.10% (-2.50% net of fess) versus -3.06% for the Russell 2000 Growth Index, a positive differential of 96 basis points (56 basis points net of fees).

The second quarter was markedly better for equity markets as the economy slowly reopened and uncertainties regarding COVID-19 began to diminish. Growth stocks again outperformed value stocks during the quarter, and small-cap stocks performed better than large but still trail by nearly 1,300 basis points year-to-date. Our performance was hampered again by our consistent and significant underweight (3.6% versus 17.8% for the benchmark) in biotech stocks. Biotechs returned 40% and are up nearly 73% off the bottom on March 18th, outpacing the market.

Last quarter we noted a historically meaningful opportunity to invest in small-cap companies based on valuation spreads, and we indeed saw a very significant move higher in stocks, although we are admittedly surprised by the magnitude given the continued risks and uncertainties related to COVID-19. The rally can be at least partially attributed to the massive monetary support provided by the Federal Reserve and other central banks. Just how extreme has the Fed been? The $2.9 trillion balance sheet increase over three months took nearly five years to accomplish following the Global Financial Crisis in 2008. Balance sheet expansion will continue for the foreseeable future and interest rates are expected to remain at current levels well into 2021. Even more, a second round of stimulus in the form of a sizable infrastructure bill is in the works at the White House, although it has to also make its way through Congress.

As a result, the market appears to be discounting quite a recovery from the COVID crisis with the S&P 500 forward P/E ratio now meaningfully above-average in the midst of the biggest expected decline in U.S. GDP since World War II. Sure, the market is a discounting mechanism and historically bottoms before we exit recession, but the speed and magnitude of the move leads us to wonder if the market is a bit over-optimistic given the unpredictability of the underlying healthcare emergency. Consensus estimates now project S&P 500 earnings per share will exceed the 2019 peak in 2021, which we view with a large degree of skepticism. Moreover, leadership has been narrow during the rally, with the five largest holdings in the S&P 500 accounting for a record 23% of the index, exceeding the previous peak in 2000.

What's amazing to us is how quickly sentiment flipped and behavior changed from being fear-driven to greed-driven. Never before in our careers have we witnessed such a rapid shift in sentiment-based investor behavior. While we essentially lived through a slow-motion crash just four short months ago, today we see some areas of bubble-like activity that we last experienced in 1998-2000. The aforementioned biotechs are one slice of the market demonstrating bubblicious characteristics, but we see similar behavior with certain large-cap darlings (i.e. the "FAANG" stocks), a red-hot IPO market, blank-check SPAC's (special purpose acquisition companies), and e-commerce and cloud plays. Yes, some of these companies stand to benefit from the post-COVID world, but we believe herding in these stocks has pushed valuations to the point where expectations likely exceed economic reality. We've gone from the end of the world to pockets of irrational exuberance in the blink of an eye.

The Quarter in Review (continued)

Fortunately, we don't see froth in our investment universe, as the outsized gains have come largely from these narrow bands. While in the short-run we are finding a below-average number of new investment ideas because earnings surprises are being dampened by the recession, the quality of the surprises we did see (for both current holdings and new ideas) during the recent earnings season were encouraging, particularly in more cyclical areas like consumer discretionary, housing, and automotive. Our experience tells us that we will soon be in a "target-rich" environment for earnings surprise as the economy starts to grow. Expectations for earnings are low exiting recession, setting up a meaningful opportunity as companies begin to see results that exceed those muted assumptions.

We continue to focus the portfolio on investments in businesses that are less severely impacted in the current environment, and on those companies we expect will emerge from the recession in a better competitive position. As we mentioned last quarter, historically the best opportunities to invest in our small-cap strategy have followed recessionary periods where we see a bottom in corporate earnings. When the economy makes its turn, small-cap investors benefit from accelerating earnings growth and multiple expansion as confidence returns. Historically, small-cap stocks start to outperform large-cap stocks before a recession ends (see the table below from Jefferies small-cap strategist Steven DeSanctis), which happened this quarter.

Small-Cap and Large-Cap Performance Around Recessions*

	1st Half of Recession		2nd Half of Recession		1-Year After	
	Small	Large	Small	Large	Small	Large
Average	-12.6	-9.4	11.4	7.5	36.7	30.9
Median	-8.0	-5.8	16.6	11.0	25.4	15.6

*Source: Jefferies. Analysis of 15 recessions since 1926

While volatility is likely in the second half of the year if we experience setbacks related to the virus, we firmly believe that our strategy of investing in businesses with unique attributes driving better-than-expected growth adds value for our clients over the long-term. These companies are undergoing transformational change that we believe is misunderstood or under-appreciated by the market overall. While the multiples afforded such companies can fluctuate in the near-term, we believe that over longer periods of time a diversified portfolio of these investments is likely to outperform the broader market.

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Portfolio Highlights

As of June 30, 2020, the portfolio was 95.8% invested in 64 different positions. The portfolio had its largest over-weightings in technology (35.2% average weighting during the quarter versus 17.9% for the Russell 2000 Growth Index), consumer discretionary (16.1% versus 11.1%), and energy (1.6% versus 1.0%). The portfolio was most underweight healthcare (21.9% versus 34.0%), producer durables (6.4% versus 13.5%), and financial services (6.1% versus 9.9%).

Performance in the second quarter was positively impacted by stock selection in technology (where our holdings returned 45.06% versus a 31.79% return for the benchmark's technology holdings). Performance was negatively impacted by stock selection in healthcare (25.89% versus 31.94%), energy (6.32% versus 63.64%), and financial services (4.90% versus 18.75%).

PORTFOLIO CHARACTERISTICS
(AS OF JUNE 30, 2020)

Number of Stocks	64
Weighted Market Capitalization (in millions)	$3,304
Median Market Capitalization (in millions)	$2,588
P/E Forward 4 Quarters (estimated)	15.7x
Long-Term Future EPS Group Rate (estimated)	4.7%
Long-Term Debt to Total Equity	12.6%
Return on Equity	4.8%
Cash Position	4.2%
Portfolio Turnover (2019)	142%

Source: Thomson Reuters Eikon

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

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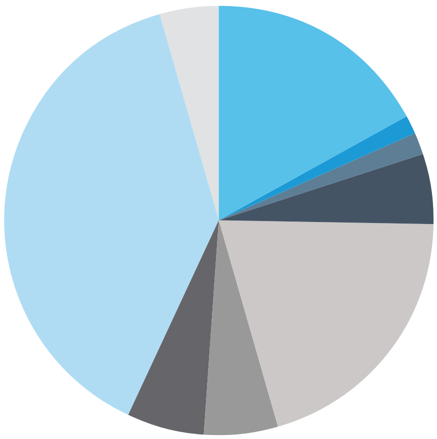
TOP TEN HOLDINGS *(as of June 30, 2020)*

	Company		Line of Business
1	Tandem Diabetes Care, Inc.	3.8%	Develops pump systems for diabetes patients
2	Livongo Health, Inc.	3.8%	Provides technology solutions that help its members manager chronic conditions like diabetes
3	INPHI Corp.	3.0%	Provides high-speed analog semiconductor solutions for the communications and computing markets
4	Bandwidth, Inc.	2.8%	Provides cloud-based communication services
5	Chegg, Inc.	2.7%	Provides a direct-to-student learning platform
6	Magnite, Inc.	2.2%	Provides online advertising solutions
7	SVMK, Inc.	2.2%	Develops survey software
8	Stamps.com, Inc.	2.0%	Provides a service for purchasing and printing postage over the internet
9	II-IV, Inc.	2.0%	Designs engineered materials and optoelectronic components
10	Perdoceo Education Corp.	2.0%	Provides post-secondary educational services

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, 2020)*

Consumer Discretionary	17.2%
Consumer Staples	1.4%
Energy	1.5%
Financial Services	5.4%
Health Care	20.1%
Materials & Processing	5.7%
Producer Durables	5.9%
Technology	38.6%
Utilities	0.0%
Cash	4.2%
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, 2020)***

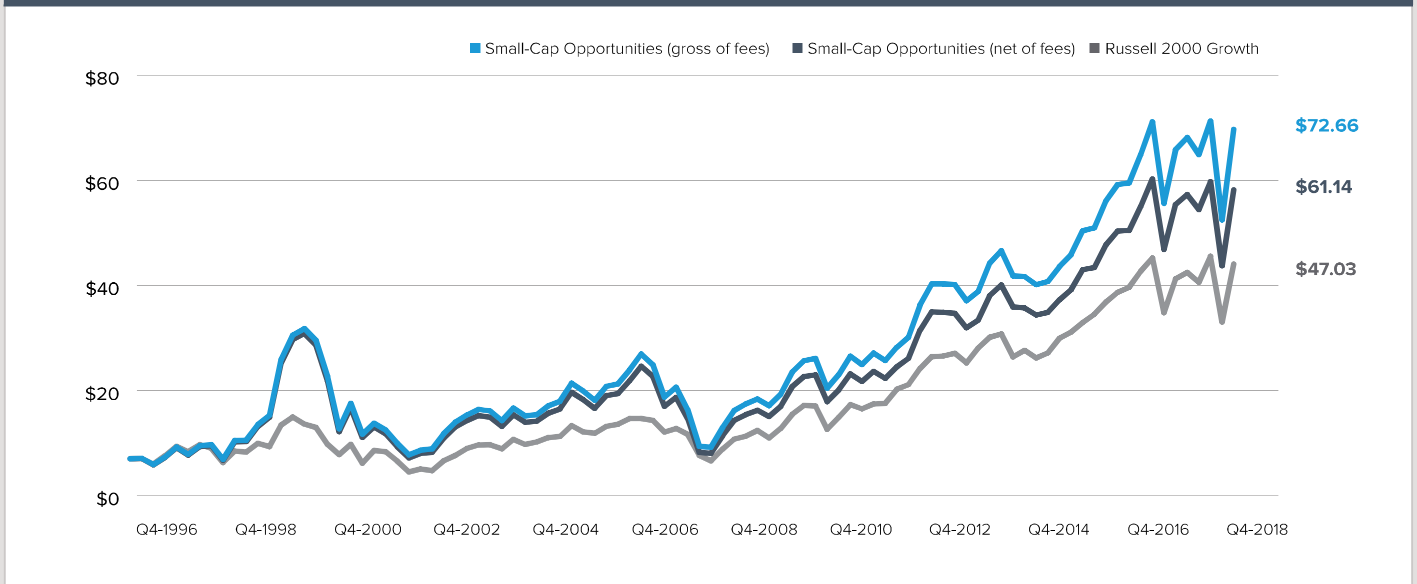
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception (9/15/1996)
Small-Cap Opportunities (gross of fees)	**31.11%**	**-2.10%**	**2.19%**	**10.45%**	**7.94%**	**13.72%**	**8.80%**
Small-Cap Opportunities (net of fees)	**30.94%**	**-2.50%**	**1.46%**	**9.66%**	**7.27%**	**12.99%**	**8.01%**
Russell 2000 Growth Index	30.58%	-3.06%	3.48%	7.86%	6.86%	12.92%	6.84%

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.

GROWTH OF $10 MILLION — WITH INCOME INVESTED ***(September 15, 1996– June 30, 2020)***



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