

## MICRO-CAP GROWTH STRATEGY

4Q 2020

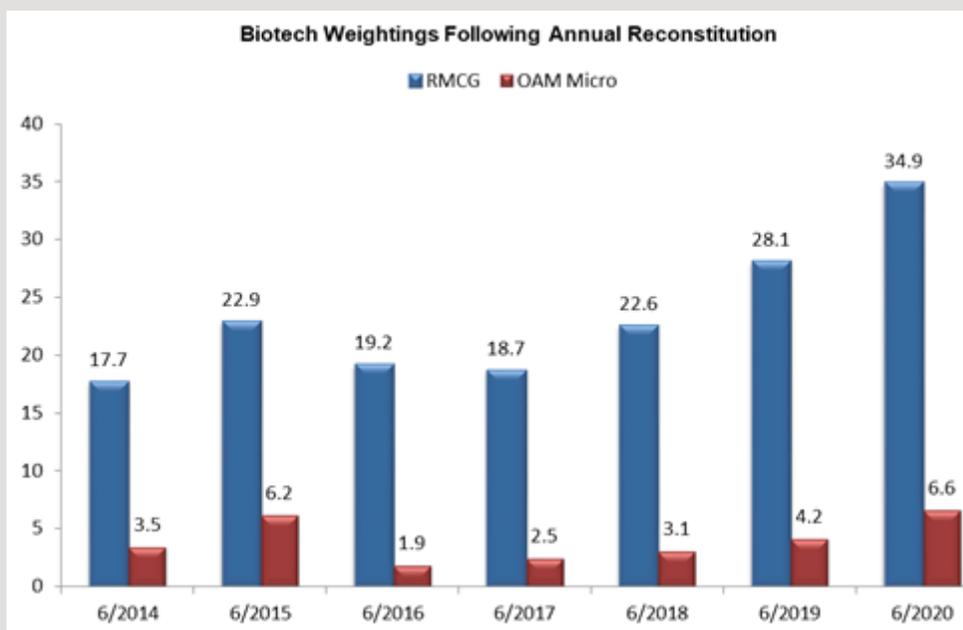
### The Quarter and Year in Review

The Oberweis Micro-Cap Growth Composite returned 35.33% (35.27% net of fees) versus 29.65% for the Russell Microcap Growth Index in the fourth quarter, an outperformance of 568 basis points (562 basis points net of fees). For the year, the Composite posted a strong absolute return of 31.51% (30.50% net of fees) but lagged the benchmark return of 40.13% by 862 basis points (963 basis points net of fees).

2020 was a remarkable and surprising year in the equity market, particularly against a backdrop of a global economic recession triggered by the onslaught of Covid-19. Returns in the fourth quarter were particularly robust, but there were notable winners and losers. Large caps again outperformed small-caps<sup>1</sup>, although to a lesser extent than they did in 2019. Growth stocks trounced value stocks during the year<sup>2</sup>.

Within growth, however, the rising tide did not lift all boats. Returns for the full year and the fourth quarter were driven by biotechs, unprofitable companies<sup>3</sup>, and low return-on-equity companies, characteristics we find undesirable given our disciplined investment philosophy. The environment throughout the year was challenging for our investment style, which focuses on investing in companies that are generally profitable or close to profitability with the potential to generate significant positive earnings surprises.

Instead, during 2020, investors shunned companies with profitability and earnings at a rate we last witnessed in 1999. The biggest drag on relative performance was our significant underweighting in biotech stocks, which continued their remarkable run that started in October 2019. Biotechs returned 55.4% during 2020 and over 135% from the correction low on March 18th, far outpacing the benchmark. Micro-cap biotech companies tend to be unprofitable and are often driven by future binary events, attributes which are inconsistent with our investment style and leads to a consistent underweight in the portfolio. Biotechs have had good years and bad years over time (for example, biotechs dropped over 20% in 2016 and 19% in 2018), and typically biotech stocks tend to trade in unison where upside moves are often tied to increased appetite for risk. Last year, interest rates collapsed and the Federal Reserve aggressively provided record levels of monetary stimulus, causing risk appetites – and biotech stocks en masse – to soar. Historically, biotechs represented a relatively stable allocation within the benchmark, but more recently have become a much larger percentage and increasingly account for a greater proportion of our short-term performance volatility compared to the index (see below).



<sup>1</sup> During 2020, the Russell 1000 Growth Index returned 38.49% versus 34.63% for the Russell 2000 Growth Index, a difference of 386 basis points.

<sup>2</sup> During 2020, the Russell 2000 Growth Index returned 34.63% versus 4.63% for the Russell 2000 Value Index, a difference of 3,000 basis points.

<sup>3</sup> Non-earners outperformed all P/E quintiles of the Russell 2000 Growth Index during 2020 and the fourth quarter.

## The Quarter and Year in Review (continued)

Unprofitable companies (some of which are the aforementioned biotechs) and the most expensive stocks also led the market in 2020, with non-earners returning nearly 67% and the highest P/E quintile returning over 48%; the remaining four P/E quintiles in the Russell 2000 Growth Index averaged only 10.7% for the year<sup>4</sup>, substantially underperforming the overall index return. Companies generating low returns on equity – where we have limited exposure – outperformed by a wide margin (see table below). The vast majority of our investments are in profitable companies generating free cash flow or companies on the verge of profitability. In our experience, profitable companies demonstrate and confirm the viability of a business model and are less-dependent on capital markets to fund future growth because of internal cash generation. Our focus on profitability reduces downside risk just when it’s most likely that capital markets will tighten for small-cap companies.

**Russell 2000 Growth Index 2020 Performance by ROE Quintile and  
 Micro-Cap Growth Portfolio Weighting by ROE Quintile**

	<u>'20 Return</u>	<u>OAM Micro Weight</u>
Highest ROE Quintile 1	22.79%	20.7%
ROE Quintile 2	10.76%	21.7%
ROE Quintile 3	26.59%	30.9%
ROE Quintile 4	82.74%	21.8%
Lowest ROE Quintile 5	56.34%	4.8%

While there has been much discussion in the financial media about stretched valuations for S&P 500 companies, we still find valuations in our portfolio and in our investible universe to be more favorable than normal. Moreover, we’ve seen our universe expand as the economy begins to recover and companies report earnings surprises against low expectations. Combined, these two characteristics leave us excited about our holdings as we turn the calendar. Within the portfolio, we have countless stocks that offer attractive upside based on their potential for earnings surprises and our proprietary earnings estimates: an ecommerce technology company that grew earnings 67% last quarter and trades less than 15x our 2021 estimate; a delivery vehicle manufacturer that grew earnings 38% and trades for 14x; and an action apparel retailer that grew earnings 55%, has over 30% of its market cap in cash, and trades for only 10x.

Still, the year ahead presents risks beyond our collective ability to escape the pandemic for good. When Covid-19 does subside, expect increasing attention on what it cost to weather the storm and a renewed focus on the exploding federal debt. Inflation, which is still in check and, importantly, is expected to remain so, is another potential concern. Unexpected acceleration in prices could force the Fed to revise its previously telegraphed plans and become more hawkish sooner, leading to higher interest rates. Finally, political uncertainty remains high in the U.S. going into President-elect Biden’s first term, and potential Democratic policies regarding taxation and welfare-type programs may jostle the market as we move through 2021.

No matter what happens in the short-term, our bottom-up strategy has always focused on investing in businesses with idiosyncratic attributes that afford the potential for earnings growth to surprise materially to the upside. These companies are undergoing a transformational change or event that we believe is potentially misunderstood or underestimated by the consensus. While the earnings multiples afforded such companies can oscillate from quarter to quarter, we believe that prudent selection of a diversified portfolio of these companies is likely to outperform the benchmark over the long-term.

## Portfolio Highlights

As of December 31, 2020, the portfolio was 98.9% invested in 66 different positions. The portfolio had its largest over-weightings in technology (35.8% average weighting during the quarter versus 20.3% for the Russell Microcap Growth Index), producer durables (19.8% versus 8.3%), and consumer discretionary (16.3% versus 9.8%). The portfolio was most underweight healthcare (17.5% versus 48.0%, due mainly to a significant underweight in biotech issues), consumer staples (0.6% versus 2.7%) and utilities (0.0% versus 2.0%).

Performance in the fourth quarter was positively impacted by stock selection in healthcare (where our holdings returned 44.63% versus a 19.59% return for the benchmark's healthcare holdings), while performance was negatively impacted by stock selection in consumer discretionary (24.78% versus 27.84%).

### PORTFOLIO CHARACTERISTICS

(AS OF DECEMBER 31, 2020)

Number of Stocks	66
Weighted Market Capitalization (in millions)	\$1,654
Median Market Capitalization (in millions)	\$957
P/E Forward 4 Quarters (estimated)	12.0x
Long-Term Debt to Total Equity	11.7%
Return on Equity	5.6%
Cash Position	1.1%
Portfolio Turnover (2020)	89.1%

Source: Thomson Reuters Eikon

## Key Benefits

The Micro-Cap Growth strategy seeks to capitalize on the exceptional growth potential of companies in the early stages of their life cycle. The strategy invests in very small companies which, at the time of purchase, have a market capitalization

less than \$600 million or are within the range of companies represented in the Russell Micro-Cap Growth Index, whichever is greater. These companies often boast exciting products and/or services driving organic revenue and earnings growth. Our fundamental research process is specifically designed to uncover such opportunities.

The key benefits of the Micro-Cap Growth strategy are:

- Access to one of the least efficient segments of the equity market
- 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 micro-cap companies that are misunderstood by traditional Wall Street research analysts
- Exposure to micro-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**

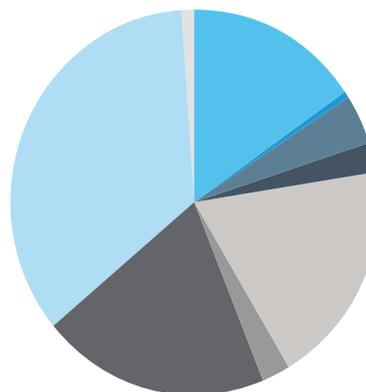
**TOP TEN HOLDINGS (as of December 31, 2020)**

	Company		Line of Business
1	Magnite, Inc.	5.7%	Provides online advertising solutions
2	CareDx, Inc.	4.3%	Provides diagnostic testing services for transplant patients
3	Upwork, Inc.	3.9%	Provides online recruitment services
4	Castle Biosciences, Inc.	3.8%	Provides components for the semiconductor industry
5	Digital Turbine, Inc.	3.8%	Provides an on-device media platform
6	Alphatec Holdings, Inc.	3.1%	Develops spine surgery solutions
7	Golden Nugget Online Gaming, Inc.	2.7%	Operates an online gaming company
8	Ameresco, Inc.	2.5%	Provides a range of energy solutions
9	Channel Advisor Corporation	2.5%	Provides e-commerce channel management solutions
10	Shyft Group, Inc.	2.5%	Manufacturer of specialty and commercial vehicles

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 December 31, 2020)**

Consumer Discretionary	15.4%
Consumer Staples	0.6%
Energy	4.2%
Financial Services	2.3%
Health Care	19.1%
Materials & Processing	2.4%
Producer Durables	20.0%
Technology	34.9%
Utilities	0.0%
Cash	1.1%
<b>Total</b>	<b>100.0%</b>



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

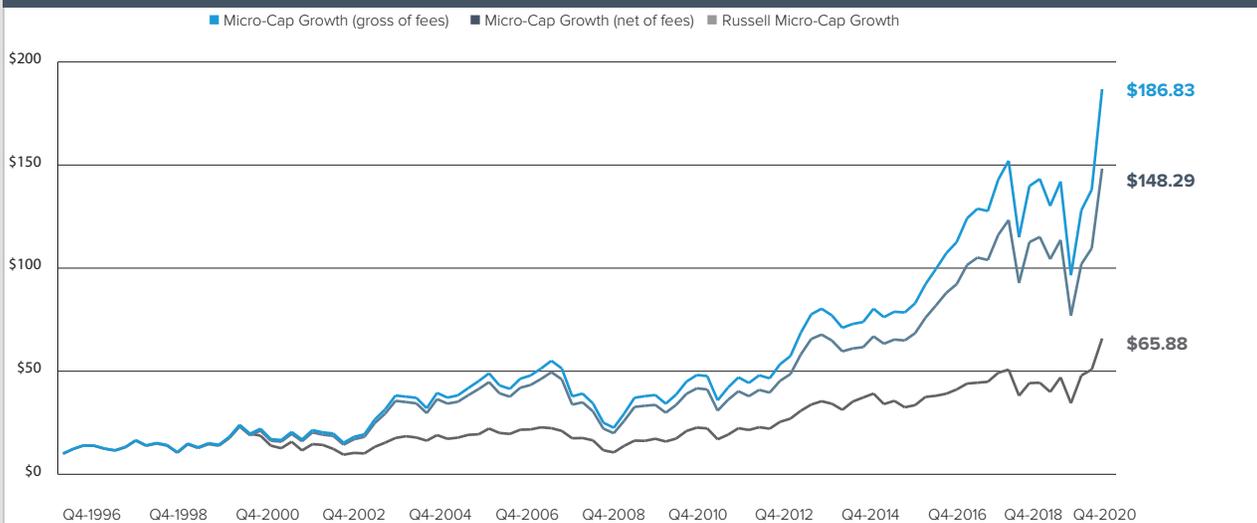
**AVERAGE ANNUAL TOTAL RETURNS (as of December 31, 2020)**

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 1/1/1996
<b>Micro-Cap Growth (gross of fees)</b>	<b>35.33%</b>	<b>31.51%</b>	<b>13.17%</b>	<b>18.82%</b>	<b>15.30%</b>	<b>12.44%</b>
<b>Micro-Cap Growth (net of fees)</b>	<b>35.27%</b>	<b>30.51%</b>	<b>12.16%</b>	<b>17.81%</b>	<b>14.28%</b>	<b>11.41%</b>
Russell Microcap Growth Index	29.65%	40.13%	14.04%	13.08%	11.57%	N/A

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 \$5 million. Performance results, from 1-1-96 until 12-31-03 and 9-1-11 to present were derived solely from the performance of the Oberweis Micro-Cap Fund, a registered, open-end mutual fund, for which OAM serves as investment adviser. Prior to November 4, 2001, James D. Oberweis was the sole portfolio manager for the Micro-Cap Fund during the period of the performance results noted. Accounts are dollar-weighted within the composite and reported in U.S. dollars.

The Russell Microcap Growth Index measures the performance of those Russell Micro Cap companies with higher price-to-book ratios and higher forecasted growth values. The performance data includes reinvested dividends. The Russell Microcap Index is represented by the smallest 1,000 securities in the small cap Russell 2000 Index plus the next 1,000 securities. Each 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 (January 1, 1996 – December 31, 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.

**For more information please contact:**

**Brian K. Lee, Director of Marketing & Client Service**  
 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)

**Marc Carlson, Director Marketing & Client Service**  
 Oberweis Asset Management, Inc.  
 3333 Warrenville Rd., Suite 500, Lisle, IL 60532  
 (800) 323-6166 | (630) 577-2364 | [marc.carlson@oberweis.net](mailto:marc.carlson@oberweis.net)

**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**