Oberweis Asset Management

OBERWEIS SMALL-CAP OPPORTUNITIES FUND INSTITUTIONAL CLASS (OBSIX) MARKET COMMENTARY

1Q 2022

The Quarter in Review

The Oberweis Small-Cap Opportunities Fund returned –7.16% versus –12.63% for the Russell 2000 Growth Index during the first quarter, an outperformance of 547 basis points. Non-earners and low return-on-equity (ROE) companies, which led the market in 2020 and reached bubble-like levels early last year, continued to lag, providing a tailwind to our higher-quality portfolio on a relative basis. Small-cap stocks again underperformed large caps and growth lagged value by a large margin[1] as investors shunned risk.

Global equity investors were forced to grapple with curve ball after curve ball to start the year. Inflation accelerated to unanticipated levels as supply chain tightness eclipsed what was seen in early 2020, and shipping costs remained stubbornly high[2]. Labor demand continued to be robust against limited labor supply in a post-Covid world, driving wages up and adding more fuel to the inflation fire. The Russian invasion of Ukraine in late February was the final straw, sending energy and commodity prices dramatically higher and further stoking risk aversion by investors who feared a wider war in Europe directly involving the United States and NATO.

The Federal Reserve – which was cajoled and taunted by the bond market to get more aggressive during the quarter – now faces the difficult task of wrangling inflation that is clearly not transitory. Chairman Powell has been more talk than action thus far, dipping his toe in the water with a tepid 25 basis-point increase in March. The bond market is looking for more – far more – with futures signaling a Fed Funds rate closer to 3% in the second half of 2023. Whether the bond market is accurately predicting the path of interest rates is highly debatable, but in the meantime, we expect the Fed to aggressively reduce the size of its balance sheet throughout this year and next, ending a quantitative easing program that went on far too long.

The result of this monetary policy mess is increasing fear among investors. Google searches for terms like "stagflation," "inflation," "recession," and "nuclear war" are spiking, and CNN's "Fear & Greed" sentiment indicator plunged late in the quarter to levels last seen during the worst of the pandemic fears in early 2020. Most recently, financial news "experts" are pontificating over a supposed yield-curve inversion, which means that short-term interest rates are higher than long-term rates. According to the pundits, such an inversion portends recession and doom. In reality, we believe the yield curve looks to be flat and not inverted, and the 10-year/2-year yield spread (which is positive as of this writing on April 12, 2022) typically needs to remain negative for a sustained period of time before we start to worry about negative GDP growth.

So, with a long list of risks and concerns this must be the beginning of the end of the bull market, right? Not so fast. First, research by Empirical Research Partners suggests that small-cap stocks perform better than large-caps during periods of inflation and even stagflation, and small-caps are cheaper on a relative basis.

[1]During the quarter, the small-cap Russell 2000 Growth Index lagged the large-cap Russell 1000 Growth Index by 359 basis points. The Russell 2000 Growth Index lagged the Russell 2000 Value Index by 1,023 basis points.

[2]The WCI Los Angeles-Shanghai Container Freight Benchmark Rate is up over 100% year/year.

AVERAGE ANNUAL TOTAL RETURNS ***(as of March 31, 2022)***

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 9/15/96	Gross/Net Expense Ratio*
Oberweis Small-Cap Opportunities Fund Institutional Class (OBSIX)**	**-7.16%**	**14.81%**	**23.88%**	**19.07%**	**14.92%**	**9.11%**	**1.34%/1.00%**
Oberweis Small-Cap Opportunities Fund Investor Class (OBSOX)	**-7.24%**	**14.51%**	**23.55%**	**18.76%**	**14.63%**	**8.84%**	**1.59%/1.25%**
Russell 2000 Growth Index	-12.63%	-14.33%	9.88%	10.33%	11.21%	7.29%	

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so that you may have gain or loss when shares are sold. Current performance may be higher or lower than quoted. Unusually high returns may not be sustainable. Visit us online at oberweisfunds.com for most recent month end performance.

The Oberweis Funds invest in rapidly growing smaller and medium-sized companies that may offer greater return potential. However, these investments often involve greater risks and volatility. Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations. There is no guarantee that the Funds can achieve their objectives.

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.

** Audited data as of December 31, 2021. Oberweis Asset Management, Inc. (OAM), the Fund's investment advisor is contractually obligated through April 30, 2023 to reduce its management fees or reimburse OBSOX to the extent that total ordinary operating expenses exceed in any one year 1.25% expressed as a percentage of the Fund's average daily net assets and for OBSIX 1.00%.*

***Institutional Class shares OBSIX performance information was calculated using the historical performance of Investor Class shares for periods prior to May 1, 2017.*

The Oberweis Funds are distributed by Oberweis Securities, Inc. Member: FINRA & SIPC.

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.

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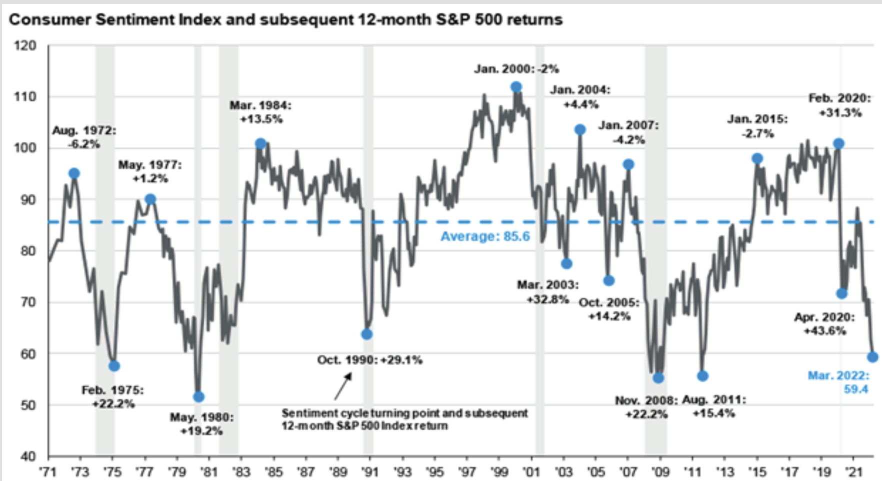
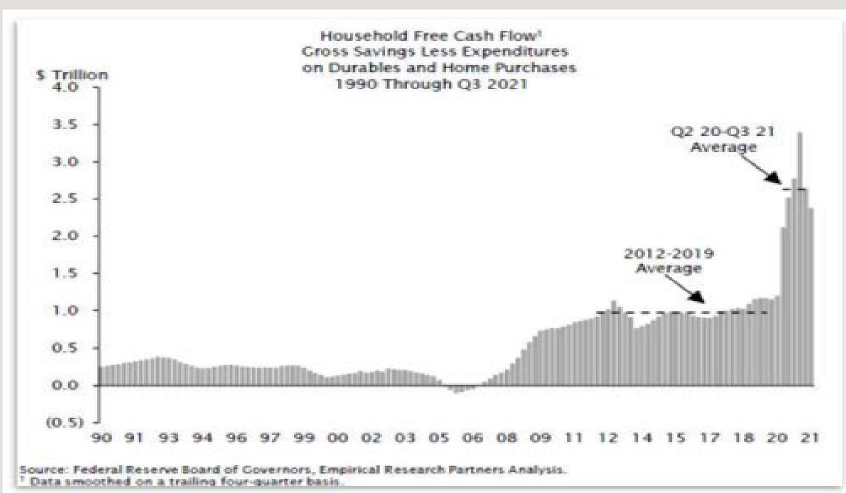
The Quarter in Review (continued)

Large-caps outperformed small-caps by a staggering 2,900 basis points[3] over the past year, and we'd bet on reversion. Furthermore, in our experience, periods of deteriorating sentiment historically offer great opportunities to invest in our Fund because expectations become too low. Research from Jefferies offers support, illustrating that small-cap stocks usually rebound from poor first-quarter returns. In the 10 worst first quarters for the Russell 2000 Index since 1980, the remaining 9-month return was positive 8 times and the average return for the full year was +12.0% (with a median of +20.6%). We also see this in the chart below from J.P. Morgan, where we note that similarly low levels of consumer sentiment (below 60) in the past were great times to buy stocks, with an average forward 12-month return for the S&P 500 of +19.8%.



Furthermore, while inflation is hitting the consumer, particularly at the gas pump, it's important to remember that the US consumer – which represents 70% of the economy – has record amounts of excess savings and record-low debt obligations, providing ample cushion to weather the storm.



Although headlines and investor risk appetites can change on a whim – particularly in this environment – our bottom-up strategy has always been focused on investing in businesses with idiosyncratic attributes that afford the potential for earnings growth to surprise to the upside. These companies are often 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 stock selection of a diversified portfolio of companies with prospects for better-than-expected earnings growth is likely to outperform the broader market over the long-term.

[3]For the 1-year period ending 3/31/2022, the Russell 1000 Growth Index returned +14.98% versus –14.33% for the Russell 2000 Growth Index.

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Fund Highlights

As of March 31, 2022, the Fund was 92.8% invested in 68 different positions. The Fund had its largest over-weightings in consumer discretionary (23.5% average weighting during the quarter versus 15.3% for the Russell 2000 Growth Index), technology (28.4% versus 21.1%), and materials (12.5% versus 5.8%). The Fund was most underweight healthcare (14.6% versus 22.3%, largely due to an underweight in biotech), producer durables (12.5% versus 18.1%), and financial services (4.2% versus 8.9%).

Performance in the first quarter was positively impacted by stock selection in healthcare (where our holdings returned 13.85% versus a -14.09% return for the benchmark's healthcare holdings), materials, and technology.

Organization Update

There was no change to the team during the quarter.

Oberweis Asset Management's Investment Philosophy

We believe that investing in smaller companies driving revenue and earnings growth in excess of expectations results in superior investment performance over long periods of time. We believe that innovation is the key to economic growth and wealth creation and are committed to investing in companies at the forefront of innovation – smaller company stocks that offer the potential for extraordinary revenue and earnings growth.

The entrepreneurial spirit is alive and well at these companies. Many are nimble and uniquely address the needs of their customers with patented new products and services. Successful investing, however, demands more than finding companies with good growth prospects. We must also buy these stocks for our clients at prices that make sense. By paying careful attention to companies' valuations in relation to expected earnings growth rates, we seek to purchase stocks when they still have considerable appreciation potential.

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