Oberweis
Asset Management

MICRO-CAP GROWTH MARKET COMMENTARY

2Q 2022

The Quarter in Review

The Oberweis Micro-Cap Growth Composite returned -14.22% (-14.53% net of fees) versus -22.40% for the Russell Microcap Growth Index during the second quarter, outperforming by 818 basis points (787 basis points net of fees). Year-to-date, the Strategy returned -21.17%, (-21.67% net of fees) outperforming the benchmark by almost 1,200 basis points (1,137 basis points net of fees).

As interest rates climbed and inflation surged, so too did investor anxiety and as a result, risky assets were again shunned. While this spelled downside for markets broadly, and particularly for micro-cap growth stocks, our steadfast focus on higher-quality companies once again aided our performance on a relative basis. Micro-cap stocks underperformed large-caps and, in even sharper contrast, growth stocks significantly lagged their value counterparts[1] during both the quarter and year-to-date periods. Despite these headwinds, relative performance was still favorable as non-earners and low return-on-equity (ROE) companies under-performed during both the quarter and year-to-date periods, delivering a tailwind to our disciplined process and preference for higher quality companies benefiting from their idiosyncratic catalysts.

Investors faced numerous cross currents during the quarter. Inflation measures continued to confound, registering a 40-year high in May, while concerns intensified over whether the central bank could cool the economy sufficiently without triggering a recession - a balancing act that by the Fed's own admission will be tricky. Many of the worries from earlier in the year carried on, with supply chain hiccups enduring and the Ukraine tragedy continuing with no end in sight. Markets turned more turbulent in response, with the S&P 500 officially reaching bear market territory in June and previous safe harbors evaporating before investor's eyes. The past quarter marked only the second time in the last 40 years where both bonds and stocks posted losses in two consecutive quarters.

Rising interest rates and the war on inflation became the headline story, with the Federal Reserve finally turning more aggressive in their attempt to combat persistently rising prices. Following a painfully slow start with a 25 basis-point raise in March, the central bank hiked the federal-funds rate 50 basis points in May followed by another 75 basis points in June. This marked a substantial inflection, with the June hike marking the most significant tightening since 1994. The second quarter also marked the beginning of the balance sheet unwind; after officially concluding their bond purchases (QE) in March 2022, the central bank embarked on their path of quantitative tightening in earnest, detailing their intention to reduce the balance sheet as of June 1 by letting $47.5 billion in securities (comprised of Treasuries and mortgage-backed securities), "roll off", or not be reinvested, with that cap rising to $95 billion per month in September. While these moves had previously been widely telegraphed, the fact that market participants are finally getting what they had wanted for some time should be welcome news.

Investors are still grappling with numerous worries and widespread pessimism is running high. Was the Fed too late in getting aggressive to fight more stubborn inflation? Will climbing interest rates push the economy into a recession, and if so, isn't that bad for stocks? And if the previously coined "transitory" inflation is now a runaway version, how will small-cap stocks fare?

It's obvious that after a frustratingly slow start, the Fed is now all systems go, with this past quarter marking an inflection on numerous fronts as detailed above. They now must tread judiciously as they seek to walk that fine line of doing enough without overdoing it. Even if we were to assume that the economy will experience a recession of some sort, historical return data for small-cap stocks from Bank of America indicates it's quite possible we have mostly priced that in already.

[1] During the quarter and year-to-date periods, the Russell Microcap Growth Index lagged the large-cap Russell 1000 Growth Index by 148 basis points, and 497 basis points, respectively. The Russell 2000 Growth Index lagged the Russell 2000 Value Index by 397 basis points and 1,214 basis points, respectively.

AVERAGE ANNUAL TOTAL RETURNS ***(as of June 30, 2022)***

	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 1/1/1996
Micro-Cap Growth (gross of fees)	**-14.22%**	**-21.17%**	**-12.69%**	**16.78%**	**15.16%**	**17.81%**	**12.55%**
Micro-Cap Growth (net of fees)	**-14.53%**	**-21.67%**	**-13.49%**	**15.83%**	**14.17%**	**16.80%**	**11.51%**
Russell Microcap Growth Index	-22.40%	-33.04%	-43.98%	0.07%	1.58%	7.02%	N/A

Past performance is not necessarily indicative of future results. Performance is historical and includes the reinvestment of dividends and other income. Unusually high returns may not be sustainable. The strategy invests 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. Advisory fees are disclosed in Part II of Form ADV.

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.

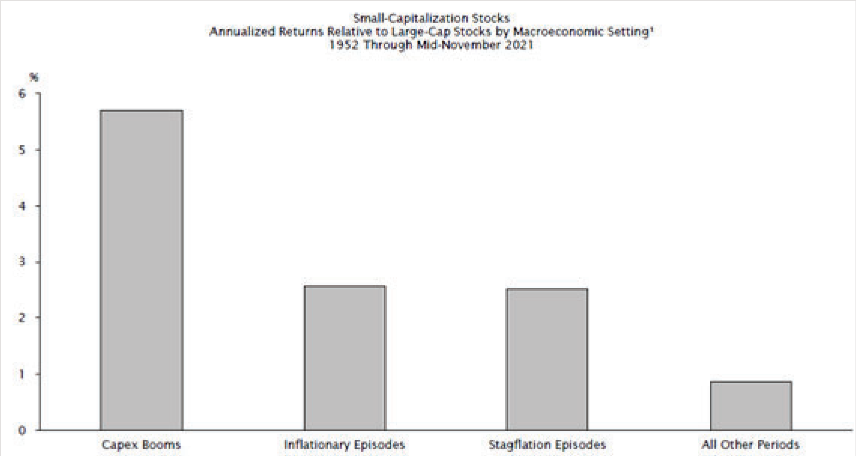
The Russell Microcap Growth Index measures the performance of those Russell Micro Cap companies with higher price-to-book ratios and higher forecasted growth values. The performance data includes reinvested dividends. The Russell Microcap Index is represented by the smallest 1,000 securities in the small 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.

The Quarter in Review (continued)

	Small caps		Peak-to-trough	
Recession	Peak date	Trough date	% return	# of months
3Q53-2Q54	2/28/1953	9/30/1953	-11%	7
4Q57-2Q58	5/31/1957	12/31/1957	-21%	7
3Q60-1Q61	5/31/1961	10/31/1962	-26%	17
1Q70-4Q70	11/30/1968	6/30/1970	-49%	19
1Q74-1Q75	4/30/1972	12/31/1974	-54%	33
2Q80-3Q80	2/8/1980	3/27/1980	-27%	2
4Q81-4Q82	6/15/1981	8/12/1982	-29%	14
4Q90-1Q91	10/9/1989	10/30/1990	-34%	13
2Q01-4Q01	3/9/2000	10/9/2002	-46%	31
1Q08-2Q09	7/13/2007	3/9/2009	-60%	20
1Q20-2Q20	1/16/2020	3/18/2020	-42%	2
		Median	**(34%)**	**14**
		Avg.	**(36%)**	**15**
		Avg. since 1980	**(42%)**	**16**

From the market peak in November 2021 through the trough in mid-June of 2022, the Russell Microcap Growth index had declined a staggering 44.70%, well beyond the median endured during the last 11 peak-to-trough declines around US recessions dating back to 1953. While we never know exactly what is to come and volatility will likely remain elevated, it's fair to say that a substantial portion of the unknown has already been discounted by markets.

As for past periods of inflation/stagflation and how they translate into stock returns, data provided by Empirical Research Partners indicates favorable relative returns for small-cap stocks, relative to large-caps, in either scenario. This should be even more pronounced within our holdings, as the companies in which we invest typically have company-specific attributes including niche product or service offerings with the potential to take market share from weaker competitors, leading to above-average pricing power and stickier demand.



This historical perspective can help to quell some of the most pervasive concerns facing investors today. When negativity is running rampant, expectations are typically quite low, and we find such times to be more opportune for patient and disciplined investors, as we have noted during such times in the past. Investor sentiment is more a reflection of past, than an indication of future, returns. Markets are always forward-looking and pricing in various probabilities of a multitude of possible scenarios, we know that markets will also price in scenarios that will not come to fruition. An ongoing Russian invasion of Ukraine will not carry on forever. Supply constraints will eventually ease. Prices are not likely to continue to march higher at the blistering pace recently witnessed. In fact, during the quarter many industrial metals declined substantially with copper down 20% and aluminum down 30%. Even the sell-off in bonds began to abate towards the end of 2Q, with the US 10-year Treasury note ending the quarter at a 3.2% yield, down from a high near 3.5% in mid-June, and continuing its descent to under 3% in early July. There have been numerous other indicators hinting at the possibility of at least some recent easing in inflationary pressures. With stock markets retreating so precipitously and expectations so low, much of the negativity has likely already been priced in and the mere possibility of anything less-than-feared is likely to ignite gains in the stock market.

While investor sentiment and headlines are likely to continue to swing wildly in the near term based on incremental economic data, comments by the Federal Reserve, and other unforeseen news items, our bottom-up investment strategy remains focused on companies demonstrating better-than-expected earnings power driven by transformational change. The valuations 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.

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Portfolio Highlights

As of June 30, 2022, the portfolio was 97.4% invested in 74 different positions. The portfolio had its largest over-weightings in technology (36.4% average weighting during the quarter versus 15.6% for the Russell Microcap Growth Index), consumer discretionary (18.2% versus 14.0%), and producer durables (20.4% versus 19.2%). The portfolio was most underweight healthcare (10.6% versus 30.1%, primarily due to our significant biotech underweighting), financial services (3.4% versus 7.2%) and consumer staples (0.0% versus 1.9%).

Overall performance in the second quarter was positively impacted by strong stock selection, particularly in producer durables (where our holdings returned -11.48% versus a -24.76% return for the benchmark's producer durables holdings), healthcare (-4.00% versus -24.63%), and technology (-17.16% versus -22.68%).

Organization Update

There was no change to the team during the quarter.

Patrick B. Joyce, our Chief Financial Officer and Chief Compliance Officer, has announced his retirement effective December 31, 2022. Pat has been an invaluable leader and mentor to many in this organization throughout his 28 years of loyal and distinguished service. He will be greatly missed, although we know Pat is excitedly looking forward to spending more time with his three young grandchildren. We wish him all the best.

With Pat's guidance and input, we have been planning for his eventual retirement for some time and have been grooming his internal successors. Beginning next year, Pat's role will be split in two. Eric Hannemann will be promoted to Chief Financial Officer. Eric joined OAM in 2004 and is currently Vice President of Accounting, reporting to Pat. Eric earned an MBA from the University of Chicago and a BA from Michigan State University. Tom Joyce will be promoted to Chief Compliance Officer. Tom joined OAM in 2010 and is currently Vice President of Compliance, reporting to Pat. Tom earned a BS from Northern Illinois University. We are confident that both Eric and Tom have the experience and education to seamlessly assume these responsibilities at OAM.

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

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