

6 Top-Performing Small-Growth Funds

These funds have delivered for investors in a turbulent market for small-growth stocks.

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While small-growth funds have lagged the broader market’s bounce back this year from a brutal 2022, some of the top performers in the category are rewarding investors with competitive, even market-beating, returns.

It’s been a difficult market for small-cap stocks overall. Amid higher interest rates and worries about a possible recession, investors in small funds have fallen further than much of the market. Most of the businesses for small-company stocks are closely tied to the U.S. economy, and thus their performance tends to reflect expectations for that economy. In contrast, larger companies are often more multinational and can hold up better in the face of weakening domestic conditions.

Last year proved particularly painful for investors in small-growth stock funds, as the average one lost 28% while the Morningstar US Market index only lost 19.4%.

In 2023, the category average for small-cap funds has gained just 9.9% through June 20, remaining below the market index, which rose 14.8% for the same period. With help from this year’s bounce, the 12-year trailing period ending June 20 paints a better picture; on average, small-growth funds gained 16% compared to the 21% gain of the overall stock market.

Against this challenging backdrop, small-growth funds with higher-quality exposure have generally posted the strongest returns. Notably, the top performers include several micro-cap stock strategies, where the funds invest in some of the smallest—and most volatile—companies in the market.



What Are Small-Growth Funds?

Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. Small-growth portfolios focus on faster-growing companies. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Small-growth fund portfolios tend to favor companies in up-and-coming industries or young firms in their early growth stages. Because these businesses are fast-growing, their stocks tend to be volatile.

6 Top-Performing Small-Growth Funds

To screen for the best-performing funds in this Morningstar Category, we looked for those that have posted top returns across multiple time periods.

We first screened for funds that ranked in the top 33% of the category using their lowest-cost share classes over the past one-, three-, and five-year time frames. In addition, we screened for funds with Morningstar Medalist Ratings of Gold, Silver, or Bronze for those classes. We also excluded funds with less than \$100 million in assets.

From this group, we've highlighted the six funds with the best year-to-date performance. This group only consists of active funds. Because the screen is created with the lowest-cost share class for each fund, some funds may be listed with share classes not accessible to individual investors outside of retirement plans. The individual investor versions of those funds may carry higher fees, which reduces returns to shareholders.

Top-Performing Small-Growth Funds

Fund Name	Ticker	Index Fund	Fund Size (\$B)	Morningstar Medalist Rating
Oberweis Micro Cap	OMCIX	No	0.3	Gold
Oberweis Small-Cap Opportunities	OBSIX	No	0.3	Gold
Lord Abbett Micro Cap Growth	LMIYX	No	0.2	Bronze
Driehaus Micro Cap Growth	DMCRX	No	0.2	Silver
DFA US Small Cap Growth	DSCGX	No	0.9	Silver
Driehaus Small Cap Growth	DNSMX	No	0.5	Silver

Oberweis Micro Cap

- Ticker: OMCIX
- Morningstar Medalist Rating: Gold
- Morningstar Rating: 5 stars

"Oberweis is an investment boutique with several strengths. While the Oberweis family retains significant control, the firm is 100% employee-owned, which has contributed to high retention among its investment team. Moreover, the firm has placed thoughtful capacity estimates for its strategies, which is welcome given the firm's focus on small-cap strategies with high portfolio turnover.

"A strong management team and sound investment process underpin Oberweis' Morningstar Medalist Rating of Gold.

"Over the past three-year period, it beat the category index, the Russell 2000 Growth Index, by 25.6 percentage points and outperformed its average peer by 24.1 percentage points. More importantly, when extended to a longer time frame, the strategy surpassed the index. On a five-year basis, it led the index by an annualized 10.1 percentage points. Although the overall rating does not hinge on one-year performance, its impressive 9.3% return is worth mentioning—a 12.8-percentage-point lead over its average peer, placing it within the top 10% of its category."

—Morningstar Manager Research

Oberweis Small-Cap Opportunities

- Ticker: OBSIX
- Morningstar Medalist Rating: Gold
- Morningstar Rating: 5 stars

“A strong management team and sound investment process underpin Oberweis’ Morningstar Medalist Rating of Gold. When looking across a longer horizon, the strategy outpaced the index. On a five-year basis, it led the index by an annualized 11.5 percentage points.

“This strategy has exhibited a tilt toward high-volatility stocks or the shares of companies with histories of the higher standard deviation of returns, compared with category peers in the last few years. Such exposure tends to pay off when markets are hot and to be costly when they are not. Additionally, in recent months the strategy was more exposed to volatility compared with its peers. This strategy has also tilted in favor of high-quality stocks that have demonstrated low financial leverage and solid return on equity during these years. Such holdings could cause it to trail peers during economic booms but help it better withstand busts.”

—Morningstar Manager Research

Lord Abbett Micro Cap Growth

- Ticker: LMIYX
- Morningstar Medalist Rating: Bronze
- Morningstar Rating: 5 stars

“Over time, this strategy has preferred smaller-market-cap companies compared with others in its category. But in terms of style (value/growth) exposure, it is similar.

“This share class surpassed the category index over the past 10-year period, outperforming by an annualized 6.9 percentage points. It has also led its average peer by an annualized 6.4 percentage points over the same 10-year period. Although the overall rating does not hinge on one-year performance, its impressive 4.9% return is worth mentioning—an 8.4-percentage-point lead over its average peer, placing it within the top 10% of its category.”

—Morningstar Manager Research

Driehaus Micro Cap Growth

- Ticker: DMCRX
- Morningstar Medalist Rating: Silver
- Morningstar Rating: 5 stars

“This firm specializes in high-conviction, actively managed, and growth-oriented strategies designed to complement an investor’s core equity and fixed-income exposure. Historically, Driehaus has had the most success with small-cap and emerging-markets strategies.

“An analysis of the strategy’s portfolio shows it has maintained a significantly overweight position in liquidity exposure and momentum exposure compared with category peers. High liquidity exposure is attributed to stocks with a high trading volume, lending managers more flexibility. And momentum exposure is rooted in holding stocks currently on a winning streak.

“When looking at the fund’s absolute return track record, it also came out ahead. On a nine-year basis, this share class beat the category index on an annualized basis by 8.1 percentage points. It has also beaten its average peer by an annualized 7.5 percentage points over the same nine-year period.”

—Morningstar Manager Research

DFA US Small Cap Growth

- Ticker: DSCGX
- Morningstar Medalist Rating: Silver
- Morningstar Rating: 4 stars

“This share class outpaced its average peer by 1.2 percentage points annualized over a 10-year period. And it also exceeded the return of the Russell 2000 Growth Index by an annualized 1.7 percentage points over the same period. Although the overall rating does not hinge on one-year performance, its impressive 3.9% return is worth mentioning, a 7.4-percentage-point lead over its average peer, placing it within the top 10% of its category.

“The share class outstripped the index with a higher Sharpe ratio (a measure of risk-adjusted return) over the trailing 10-year period. Notably, these strong risk-adjusted results have not come with more volatility for investors.

“Analyzing additional factors, this strategy has consistently had a defensive tilt owing to its exposure to high-quality stocks over the past few years. High exposure to the quality factor means holding companies that are consistently profitable, growing, and have solid balance sheets.”

—Morningstar Manager Research

Driehaus Small Cap Growth

- Ticker: DNSMX
- Morningstar Medalist Rating: Silver
- Morningstar Rating: 5 stars

“An analysis of the strategy’s portfolio shows it has maintained a substantial overweight position in momentum exposure and volatility exposure compared with category peers. Momentum exposure is attributed to holding stocks currently on a winning streak and selling those that are on a downtrend. High volatility exposure is rooted in stocks that have a higher standard deviation of returns.

“Over the past three years, it beat the Russell 2000 Growth Index by an annualized 7.3 percentage points and outperformed the category average by 5.8 percentage points. More importantly, when extended to a longer time frame, the strategy outpaced the index. On a five-year basis, it led the index by an annualized 9.5 percentage points.

“The risk-adjusted performance only continues to make a case for this fund. The share class had a higher Sharpe ratio than the index over the trailing five-year period. Higher returns are often associated with higher risk. This strategy is no exception, with a standard deviation of 26.9%, exceeding the benchmark’s 24.3%.”

—Morningstar Manager Research

Long-Term Returns of Top-Performing Small-Growth Funds

Fund Name	1-Year Return %	1-Year % Rank in Category	3-Year Return %	3-Year % Rank in Category	5-Year Return %	5-Year % Rank in Category
Oberweis Micro Cap	35.4	1	33.5	1	14.8	1
Oberweis Small-Cap Opportunities	30.6	1	25.8	1	14.8	1
Lord Abbett Micro Cap Growth	25.1	3	9.6	28	10.5	7
Driehaus Micro Cap Growth	20.4	10	13.4	10	13.6	3
DFA US Small Cap Growth	20.3	11	15.9	7	7.2	23
Driehaus Small Cap Growth	17.7	25	10.2	23	11.6	5

**Average Annual Total Returns
as of 06/30/23**

Fund Name	1 Year	5 Year	10 Year	Gross/Net Expense Ratio*
Micro-Cap Fund (OMCIX)	36.03%	15.74%	17.19%	1.28%/1.27%
Small-Cap Opportunities Fund (OBSIX)	31.05%	15.87%	14.88%	1.20%/1.00%

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 which 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, 2022. Oberweis Asset Management, Inc. (OAM), the Fund's investment advisor is contractually obligated through April 30, 2024 to reduce its management fees or reimburse OMCIX to the extent that total ordinary operating expenses, as defined, exceed in any one year the following amounts expressed as a percentage of each Fund's average daily net assets: 1.55% of the first \$50 million; plus 1.35% of average daily net assets in excess of \$50 million and for OBSIX to the extent that total ordinary operating expenses exceed in any one year 1.00% expressed as a percentage of the Fund's average daily net assets.*

Institutional Class shares OMCIX and OBSIX performance information was calculated using the historical performance of Investor Class shares for periods prior to 5/1/17. Investor Class share OMCIX inception date 1/1/96. Investor Class share OBSIX inception date 9/15/96.

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

Morningstar Medalist Funds (Gold, Silver, or Bronze)

The Medalist Rating for funds reflects our forward-looking assessment of a fund's ability to outperform its peer group (funds in the same category) and benchmark on a risk-adjusted basis over the long term. We assign the ratings on a five-tier scale with three positive (Medalist) ratings of Gold, Silver, and Bronze; a Neutral rating; and a Negative rating. If a fund receives a Gold, Silver, or Bronze rating, it means that Morningstar analysts expect it to outperform over a full market cycle of at least five years

The Morningstar Medalist Ratings are not statements of fact, nor are they credit or risk ratings. The Morningstar Medalist Rating (i) should not be used as the sole basis in evaluating an investment product, (ii) involves unknown risks and uncertainties which may cause expectations not to occur or to differ significantly from what was expected, (iii) are not guaranteed to be based on complete or accurate assumptions or models when determined algorithmically, (iv) involve the risk that the return target will not be met due to such things as unforeseen changes in changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, tax rates, exchange rate changes, and/or changes in political and social conditions, and (v) should not be considered an offer or solicitation to buy or sell the investment product. A change in the fundamental factors underlying the Morningstar Medalist Rating can mean that the rating is subsequently no longer accurate.

Top 10 Percentile Rank in Category (5-Year Annualized Return)

Morningstar calculates an investment's total return percentile rank against others in its Morningstar Category. Percentile ranks always range from 1 (best) to 100 (worst), with all intermediate values spread evenly over that range. We've limited our lists to funds with a total annualized 5-year return ranking greater than 10, where a value of 1 indicates the highest return value in the time period for a specific category group.

Morningstar Ratings

For the period ended 5/31/2023 in the US Fund Small Growth category, OMCIX received a 5-Star Overall Morningstar Rating out of 559 funds, 5-Star 3-Year Rating out of 559 funds, 5-Star 5-Year Rating out of 525 funds and 5-Star 10-Year Rating out of 391 funds. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 576, 576, and 534 funds in the category, respectively. This Morningstar Rating is for the Institutional share class only; other classes may have different performance characteristics.

For the period ended 5/31/2023 in the US Fund Small Growth category, OBSIX received a 5-Star Overall Morningstar Rating out of 559 funds, 5-Star 3-Year Rating out of 559 funds, 5-Star 5-Year Rating out of 525 funds and 5-Star 10-Year Rating out of 391 funds. The Morningstar Ratings are based on the Morningstar Risk-Adjusted Return measures of 576, 576, and 534 funds in the category, respectively. This Morningstar Rating is for the Institutional share class only; other classes may have different performance characteristics.

The Morningstar Rating for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10 year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.