Oberweis
Asset Management

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

2Q 2023

The Quarter in Review

The Oberweis Small-Cap Opportunities Fund returned +2.81% versus +7.05% for the Russell 2000 Growth Index during the second quarter, a shortfall of 424 basis points. Year-to-date, the Fund is still ahead of the benchmark by 77 basis points, returning +14.32% versus +13.55%.

The junkier part of the small-cap market led the charge during the quarter. While growth stocks outperformed value stocks[1], the Fund's performance was hampered by the type of growth stocks that drove performance – namely low-quality growth companies without earnings and companies with low returns on equity. Within the Russell 2000 Growth Index, non-earners returned twice as much as companies with earnings, and the two lowest ROE quintiles in the benchmark outperformed the higher ROE quintiles. Our higher-quality small-cap growth Fund had less than 10% exposure to these bottom two ROE quintiles. Despite their strength in the current quarter, we still believe this cohort of companies is poised to underperform the market over the near-term as the Federal Reserve continues to reset interest rate policy, and over the long-term as higher ROE equities historically outperform lower ROE stocks and non-earners. Valuation has always been an essential part of our process, and we believe a more normalized interest rate regime going forward should mean valuations will start to matter again to growth investors. The price one pays for growth is, contrary to popular opinion over the last decade or so, important.

Broadly, it seems many investors are paralyzed by economic fear in some sort of Shakespearean tragedy: To recession or not to recession? That is the question. While the mainstream financial media spends a significant amount of time debating the merits and timing and magnitude of a supposed "impending recession," most economists would admit economics is an inexact science and predicting a recession is often a fool's errand. As bottom-up stock pickers, we don't have a material "macro" edge. Instead, we assess macro risks and influences on individual company fundamentals and discount those risks as we would any other.

What we see in the economy is a mixed picture: there are plenty of positive and negative data points out there to substantiate one's position (as behavioral finance folks, we call this "confirmation bias"). On the negative side, the Fed continues to raise rates and has signaled its intention for additional hikes later this year, and we know the impact of tighter monetary policy on the economy has historically lagged. The U.S. ISM Manufacturing Purchasing Managers' Index (PMI) reading of 46 signals contraction, and the Eurozone reading of 43 is even worse. The resilient consumer – who drives 70% of the U.S. economy -- has seen excess savings they accumulated during Covid dwindle just as student loan forgiveness is set to expire. They are also facing the worst housing affordability picture since 2008 as mortgage rates eclipse 7%.

On the positive side, the Services PMI reading of 54 signals expansion, so that part of the U.S. economy remains resilient. Future earnings estimates point to growth as inflation is finally abating and corporate profit margins rebound. While the consumer is seeing savings shrink, they enjoy a record-low debt-service ratio and they still have jobs. Rising rates have yet to hit employment, which continues to surprise to the upside. Job openings are still near all-time highs and non-farm layoffs have yet to inflect upward.

[1] The Russell 2000 Growth Index returned 7.05% in the June quarter versus 3.18% for the Russell 2000 Value Index.

AVERAGE ANNUAL TOTAL RETURNS ***(as of June 30, 2023)***

	QTD	YTD	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)**	**2.81%**	**14.32%**	**31.05%**	**26.02%**	**15.87%**	**14.88%**	**9.04%**	**1.20%/1.00%**
Oberweis Small-Cap Opportunities Fund Investor Class (OBSOX)	**2.73%**	**14.19%**	**30.75%**	**25.69%**	**15.59%**	**14.59%**	**8.77%**	**1.45%/1.25%**
Russell 2000 Growth Index	7.05%	13.55%	18.53%	6.10%	4.22%	8.83%	6.76%	

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, 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 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. It is not possible to invest directly in an index.

The Quarter in Review (continued)

What's it all mean? We don't profess to know. But here's what we do know. First, we continue to find small-cap companies posting significant positive earnings surprises driven by misunderstood fundamental changes that should, based on our research, lead to additional earnings surprises in the future. These are idiosyncratic fundamental changes that tend to trump economic headwinds. Second, we know small-cap stocks are cheaper relative to large-cap stocks than they've been in more than 20 years. In fact, today's relative valuation discount sits around two standard deviations, which means the current valuation delta between small-cap and large-cap stocks only happens around 5% of the time. Third, the large-cap market is led by a narrow group of stocks trading at high valuations. The top 10 stocks in the capitalization-weighted S&P 500 Index comprise a record 32% of that index. Apple (AAPL) is now bigger in capitalization than the entire Russell 2000 and the top 5 market cap names are 3.5 times the market cap of small caps. Index investors unknowingly have a lot of eggs in a very small basket, and as a contrarian that set-up seems pretty compelling to us. We'd be surprised if small-caps didn't outperform large-caps over the next decade.

While sentiment may swing wildly in the short-run in response to incremental economic data, comments by the Federal Reserve, headlines, and TV soundbites, our bottom-up investment strategy focuses instead on companies demonstrating better-than-expected earnings power driven by transformational change. The P/E multiples 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.

Fund Highlights

As of June 30, 2023, the Fund was 97.1% invested in 83 different positions. The Fund had its largest over-weightings in information technology (27.0% average weighting during the quarter versus 17.9% for the Russell 2000 Growth Index) and consumer discretionary (12.0% versus 11.1%). The Fund was most underweight financials (2.9% versus 6.4%), health care (20.2% versus 23.6%, primarily due to our significant biotech underweighting), and consumer staples (2.5% versus 4.7%).

Overall performance in the second quarter was negatively impacted by stock selection, particularly in health care (where our holdings returned 7.40% versus a 13.21% return for the benchmark's healthcare holdings) and consumer discretionary (-6.00% versus 0.68%).

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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