Oberweis Asset Management

SMALL-CAP OPPORTUNITIES MARKET COMMENTARY

2Q 2024

The Quarter in Review

The Oberweis Small-Cap Opportunities composite returned +4.67% (4.45% net of fees) in the second quarter versus -2.92% for the benchmark Russell 2000 Growth Index, an outperformance of 759 basis points (737 basis points net of fees). Year-to-date, the composite returned +15.56% (15.08% net of fees), exceeding the benchmark return of +4.44% by over 1,100 basis points (1,000 basis points net of fees).

The U.S. small-cap market environment has been favorable for our investment style so far this year. Within the Russell 2000 Growth Index, the highest performing ROE quintiles have performed the best[1], although the benefit was more muted in the second quarter; 84% of the portfolio at quarter-end was invested in the top three quintiles. Small-cap stocks with earnings outperformed non-earners, which now make up 44% of the Russell 2000. Our portfolio, which focuses on small-cap companies generating earnings surprises driven by misunderstood fundamentals, is 94% invested in profitable companies.

More broadly, large-caps continue to trounce small-caps, outperforming by over 1,100 basis points during the quarter and over 1,600 basis points year-to-date[2]. All signs point to extremes: the top three names in the S&P 500 are now larger than the entire Russell 2000, small-caps comprise less than 4% of the U.S. equity market (the lowest level since the 1930's), and the relative valuation disparity between large-caps and small-caps is the largest since the late 1990's. While these dislocations created headwinds for us, we are proud our investment process has allowed us to exceed numerous larger-cap indices over time (see below). Better still, we anticipate tailwinds are forthcoming.

As of 6/30/2024				Average Annualized Returns		
	Q2-2024	YTD	1 Year	3 Year	5 Year	10 Year
Oberweis Small-Cap Opportunities (net of fees)	**4.45%**	**15.08%**	**16.84%**	**10.93%**	**18.87%**	**14.14%**
S&P 500	3.92%	14.48%	22.70%	8.31%	13.17%	10.79%
MSCI ACWI	3.01%	11.58%	19.92%	5.94%	11.28%	8.99%
Russell 2000 Growth	-2.92%	4.44%	9.14%	-4.86%	6.17%	7.39%

We believe reversion is inevitable and now is the time to bet big on small-caps, and those willing to be bold are likely to fare better than the broader market over the next five years. According to Jefferies, the current 7.5 year small-cap underperformance cycle is the longest since 1926. In seven prior periods of sustained underperformance, small-caps outperformed in the subsequent five-year period six times, with an average outperformance of 14.2% annualized. But which small-cap stocks are the ones to own?

[1]Year-to-date, the top ROE quintile returned 16.27% and the second quintile returned 3.83%.

[2]The Russell 1000 Growth returned 8.33% for the quarter and 20.70% year-to-date while the Russell 2000 Growth returned -2.92% and 4.44%, respectively.

AVERAGE ANNUAL TOTAL RETURNS ***(as of June 30, 2024)***

	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception (9/15/1996)
Small-Cap Opportunities (gross of fees)	**4.67%**	**15.56%**	**17.83%**	**11.87%**	**19.88%**	**15.11%**	**10.96%**
Small-Cap Opportunities (net of fees)	4.45%	15.08%	16.84%	10.93%	18.87%	14.14%	10.03%
Russell 2000 Growth Index	-2.92%	4.44%	9.14%	-4.86%	6.17%	7.39%	6.85%

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. Net-of-fee composite returns are calculated using the highest model investment advisory fees applicable to portfolios within the composite. Advisory fees are disclosed in Part II of Form ADV.

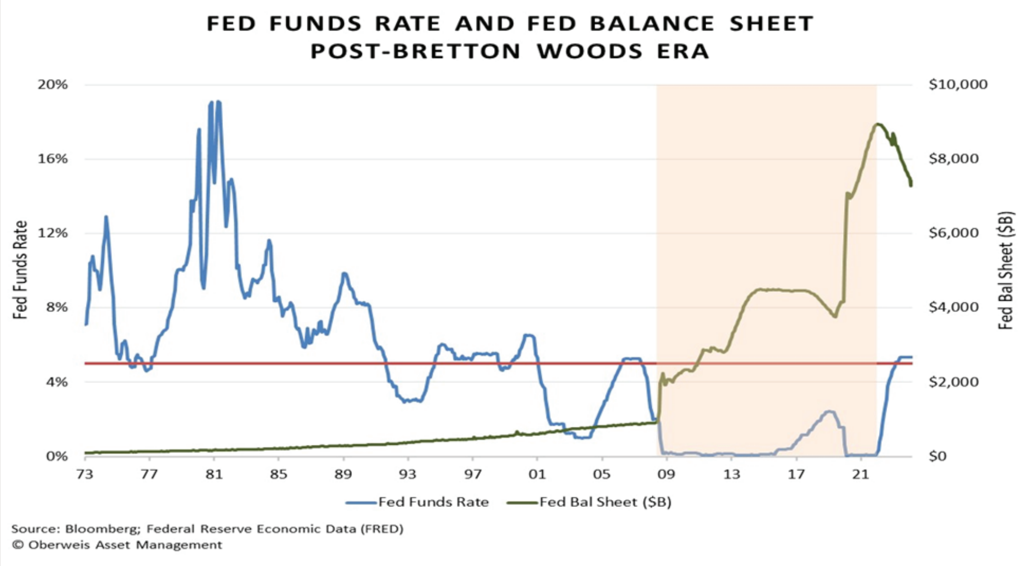
Oberweis Asset Management, Inc. ("OAM") is an independent investment management firm that is not affiliated with any parent organization. The composite returns are comprised of all fully discretionary accounts with a minimum value of $2.5 million. Performance results, from 1-1-97 to 12-31-03 and from 7-1-08 to present, are derived solely from the performance of the Oberweis Small-Cap Opportunities Fund (formerly known as the Oberweis Mid-Cap Fund), a registered open-end mutual fund, for which OAM serves as investment adviser. Accounts are dollar-weighted within the composite and reported in U.S. dollars.

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)

We think it's important to focus specifically on profitable small-cap stocks within the small-cap market. According to Empirical Research Partners, those stocks are particularly cheap, leading us to conclude they represent the most attractive part of the U.S. equity market. The reason: "free money" monetary policies post-Global Financial Crisis (GFC) rendered valuation virtually irrelevant because cash flows far into the future are worth more, sending valuations of the non-earners into the stratosphere. The result, on a relative basis, was a massive valuation compression during that period for small-cap stocks with positive earnings today. So, while small-caps in general look attractive compared to large-caps, it's the profitable small-caps offering the most compelling opportunity, in our view. As mentioned above, our portfolio provides that very exposure, consistent with our investment philosophy.

Just how out of whack did monetary policy get? Consider the chart below, which shows what happened to the fed funds rate and growth of the Fed's balance sheet from 2008 through Covid. Those who think financial history encompasses only the past 10 or 15 years are short-sighted; a longer-term look shows how abnormal that period was and suggests the recent move higher could be the start of a longer-term normalization cycle. Although we won't hazard a guess at when the Fed will ease, we are quite confident monetary policy going forward will be more normalized. The U.S. 10-year yield, which ended the quarter at 4.4%, is still well below the average of 6.1% during the 20 years leading up to the GFC[4]. Those ruminating about rate cuts are missing the point; we believe "higher for longer" is absolutely in play if normalization is high on Chairman Powell's agenda. Such an environment should favor companies that make money over those that don't.



Looking to the second half of the year, markets dislike uncertainty and we wouldn't be surprised to see increased volatility if the election outcome becomes murky. Regardless of possible short-term bumps driven by incremental economic data, comments by the Federal Reserve, headlines, and election polls, 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.

[4]The average 10-year yield from 1/1/1998 through 12/31/2007 = 6.1%

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Economic Commentary

The economic backdrop has dimmed somewhat but is still positive. The Atlanta Fed projects GDP grew a tepid 1.5% in the second quarter, as rate hikes appear to be taking hold. Inflation has moderated to the 3.5% range but whether it can approach the Fed's 2% target remains to be seen. The American consumer, while less confident, is in good shape; they're employed, enjoy a historically low debt-service ratio, and still have $600 billion of excess Covid savings. The federal government continues to spend stimulus money earmarked during Covid, providing economic support. The result is a Global Composite Purchasing Managers' Index reading in the U.S. of 54.6 in June, signaling expansion. Readings were also above 50 in Japan, India, and most of Europe.

Portfolio Highlights

As of June 30, 2024, the portfolio was 96.8% invested in 88 different positions. The portfolio had its largest over-weightings in industrials (26.4% average weighting during the quarter versus 20.3% for the Russell 2000 Growth Index), consumer discretionary (13.5% versus 10.4%), and energy (6.7% versus 4.7%). The portfolio was most underweight health care (17.6% versus 21.3%), financials (3.2% versus 6.1%), and communication services (0.0% versus 2.0%).

Overall performance in the second quarter was positively impacted by strong stock selection, particularly in technology (where our holdings returned 12.19% versus a -3.28% return for the benchmark's technology holdings), consumer discretionary (3.89% versus -5.61%), and health care (5.19% versus -1.83%). Our underweight allocation to consumer staples slightly detracted from performance in the quarter

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.

Characteristic Definitions:

P/E (Price/Earnings Ratio): This is a meausre of valuation. It relates the price of the stock to the earnings per share (EPS) of the company.

Return on Equity (ROE): This is a measure of financial performance. It divides net income by shareholders' equity.

Quintile: Represents one of five values that divide a range of data into five equal parts, each being 1/5th (20%) of that range. The first quintile represents the lowest 1/5 of values from 0-20% of the range. The second quintile includes the values from 20-40%, the third quintile includes 40-60%, the fourth quintile includes 60-80%, and the fifth quintile includes the highest 1/5 of values from 80-100%.

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