MICRO-CAP GROWTH MARKET COMMENTARY

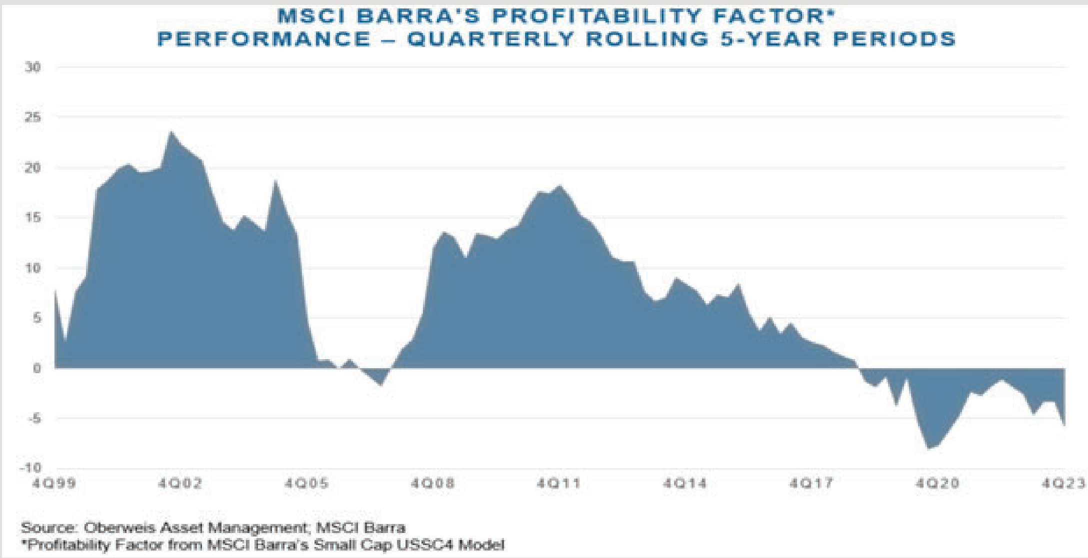
3Q 2024

The Quarter in Review

The Oberweis Micro-Cap Growth Composite returned +8.46% (8.27% net of fees) in the third quarter of 2024 versus +8.57% for the Russell Microcap Growth Index. Year-to-date, the composite returned +20.21% (19.46% net of fees), exceeding the benchmark return of +9.29% by nearly 1,100 basis points (over 1,000 basis points net of fees).

While the market environment has been favorable for our investment style for the year thus far, the third quarter was a bit bumpier. Non-earners (which constitute about 49% of the Russell Microcap Growth Index) led the small-cap market during the quarter[1] as 10-year U.S. Treasury yields fell by nearly 70 basis points, providing a short-term tailwind to those stocks (and thus a headwind to our strategy). As we've discussed previously, our differentiated PEAD-based investment philosophy generally leads us towards profitable micro-cap companies we believe can generate earnings surprises going forward; at quarter-end, 83% of the portfolio was invested in companies that make money. PEAD, or post-earnings announcement drift, is a behavioral-based phenomenon that says investors tend to underreact to new and positive information in surprising earnings reports, and that stock prices "drift" in the direction of an earnings surprise as a result.

Amazingly, profitability has been as out-of-favor in the small-cap world (of which micro-cap is a subset) as the polyester leisure suit and 1980's hairstyles. Look at the graph below, which shows how MSCI Barra's profitability risk factor has been – illogically – a performance detractor for years[2].



[1]According to Jefferies, non-earners within the Russell 2000 Growth Index returned 10.5% during the quarter.

[2]The graph shows the rolling 5-year quarterly returns of MSCI Barra's Profitability risk factor in their US Small Cap 4 Model

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

	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 1/1/1996
Micro-Cap Growth (gross of fees)	**8.46%**	**20.21%**	**31.74%**	**14.64%**	**23.94%**	**18.28%**	**13.52%**
Micro-Cap Growth (net of fees)	**8.27%**	**19.46%**	**30.64%**	**13.63%**	**22.92%**	**17.26%**	**12.48%**
Russell Microcap Growth Index	8.57%	9.29%	26.38%	-8.31%	6.86%	5.42%	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. 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 $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. It is not possible to invest directly in an index.

Oberweis Asset Management

MICRO-CAP GROWTH
MARKET COMMENTARY

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The Quarter in Review (continued)

Why has profitability been out of favor? A generation of investors grew up in an abnormally easy monetary policy environment punctuated by zero interest rate policy (ZIRP) and parabolic quantitative easing (QE) . Why worry about profitability and valuation when there's no discount rate? We've consistently said the music has stopped for that game, and "long duration" investors are short of a chair. The good news for our portfolio: we believe the most attractive part of the U.S. equity market resides with profitable micro-cap and small-cap companies. That cohort of stocks, according to Empirical Research Partners, trades at a material valuation discount relative to the total small-cap stock universe. Mean-reversion began in early 2021 and should, in our view, persist. More broadly, we continue to view the opportunity for micro-cap and small-cap stocks versus large-caps as generational. According to Jefferies research, small-cap underperformance compared to large-caps is now the longest on record dating to 1926. Historical relative valuations, as we've discussed in previous letters, are also highly compelling on numerous metrics.

While many investors have been hyper-focused on the Fed this year, we think those who view monetary policy with a more binary lens (i.e., "higher for longer" versus ZIRP) might be missing the point. In our view, the Fed seeks monetary policy normalization and is trying to hide the booze used to spike the punch. While he won't say it publicly, we believe Fed Chair Powell is trying to clean up the mess left behind by the post-GFC and post-pandemic parties. He'd like nothing more than to re-introduce a cost-of-capital into all markets – equity, bond, and real estate – so we can get to more rational "market clearing" prices. The Fed cutting rates in September and embarking on an easier monetary policy path does little to alter that trajectory. Instead, we think his goal is to be able to respond to the next bout of economic weakness with more traditional monetary policy tools.

Speaking of economic weakness, it's still not materializing in a significant way. Importantly, the management teams of our portfolio companies are not signaling any big changes in the business environment, and the Atlanta Fed projects GDP grew 2.5% in the third quarter. The consumer, who represents 68% of the economy, has been resilient. They boast an historically low household debt service ratio, and they're working, as exemplified by the strong jobs report in early October. Yes, the labor market has cooled a bit in recent months but the unemployment rate, at 4.1%, remains benign. Investment spending by the government – bolstered by post-pandemic stimulus packages – persists, and capital expenditures by major AI hyperscalers is projected to increase from $92 billion in 2022 to $237 billion in 2026. The result: Global Composite PMI (which combines manufacturing and services) was above 50 in September in the U.S., Japan, the U.K., and India. Only Germany and France showed weaker sub-50 readings.

We've long held the view that predicting the economy and other macro events is an exercise in futility, and we'd rather spend our research time focusing on individual companies and their idiosyncratic fundamentals that may allow that company to withstand potential macro headwinds. We certainly acknowledge there are numerous risks lurking in the short-term: an increasing possibility of a full-scale war in the Middle East, a tight and potentially contested U.S. presidential election, and a war in Ukraine seemingly at a stalemate that's approaching its fourth year. Any of these could scare investors into running for the exits and spiking short-term volatility.

While sentiment and equity prices may oscillate wildly in the short-run in response to the latest macro headlines, our investment approach instead focuses on companies generating better-than-expected earnings power driven by transformational change. The P/E multiple investors are willing to pay for these companies may vary from quarter to quarter, but we believe a diversified portfolio of these investments is likely to yield enhanced returns over the long-term. Rising volatility, in our view, would represent a compelling long-term buying opportunity.

Portfolio Highlights

As of September 30, 2024, the portfolio was 97.9% invested in 91 different positions. The portfolio had its largest over-weightings in technology (27.1% average weighting during the quarter versus 17.0% for the Russell Microcap Growth Index), industrials (20.5% versus 14.7%), and consumer discretionary (9.2% versus 6.2%). The portfolio was most underweight health care (25.0% versus 39.6% - due mainly, as usual, to our biotech underweighting), consumer staples (1.0% versus 3.5%), and real estate (0.0% versus 1.9%).

Performance in the third quarter was positively impacted by stock selection in health care (where our holdings returned 31.79% versus 11.80% for the benchmark's health care holdings), consumer discretionary (11.17% versus 0.59%), and industrials (8.16% versus 4.71%). Stock selection in technology (-6.34% versus 10.93%) and energy (-15.69% versus 11.29%) detracted from performance.

Organization Update

We are pleased to announce that James Rush has joined the U.S. Team as an Analyst on October 7th. Previously, he was employed at Craig-Hallum Capital Group in Minneapolis as a small-cap Research Analyst, where he covered software, internet services, business services, and fintech companies for over five years. James earned a BA in Finance and Business Administration/Economics with high honors from Augsburg University. We had over 300 applicants for this newly created position, and it was James' passion for stocks and investing – along with his analytical skill set – that really stood out and impressed us. We are incredibly excited to have him on our team.

James is based at our headquarters in Lisle, Illinois, with the rest of the U.S. Team.

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.

For more information please contact:
Brian K. Lee, Director of Marketing & Client Service
(630) 577-2321 | brian.lee@oberweis.net

Marc Carlson, Director Marketing & Client Service
(630) 577-2364 | marc.carlson@oberweis.net