Oberweis Asset Management

MICRO-CAP GROWTH MARKET COMMENTARY

4Q 2024

The Quarter in Review

The Oberweis Micro-Cap Composite returned 3.45% (3.26% net of fees) in the fourth quarter compared to 11.55% for the benchmark Russell Microcap Growth Index, lagging the benchmark by 810 basis points (829 basis points net of fees). Despite this shortfall, the composite still outperformed the index by 245 basis points (145 basis points net of fees) for the full year, returning 24.36% (23.36% net of fees) compared to 21.91%.

During the second half of 2024 and particularly the fourth quarter, the micro-cap market was led by unprofitable companies as traders bid "long duration" stocks higher in a knee-jerk reaction to initial interest rate cuts by the Federal Reserve and the election results. We believe many of these companies are now trading at excessive valuations and will likely tumble back to earth as fundamentals come back into view. Our portfolio, which was 90% invested at quarter-end in profitable companies (compared to only 50% for Russell Microcap Growth Index), faced a material headwind as a result. To further illustrate the point, the Profitability factor in MSCI Barra's Small Cap model returned -3.7% for the year[1].

Celebrating 10 Years

In this limited-attention-span era punctuated by 20-second soundbites, Instagram reels, and zero-day-to-expiration (0DTE) stock options, we think it's important to remind folks investing is a marathon, not a sprint. So, what have we been up to over the last decade? We're delighted to announce our 10-year track record[2], returning 18.37% (17.36% net of fees) annualized versus 5.30% for the Russell Microcap Growth Index, a delta of over 1,300 basis points (1,200 basis points net of fees). Performance also compares very favorably to peers on risk-adjusted measures. Furthermore, our performance compares positively to more mainstream indices that include larger companies in an environment where the US market is more top-heavy than ever before[3].

10-Year Average Annualized Returns

Oberweis Micro Cap Growth	S&P 500	S&P 600	MSCI ACWI	MSCI ACWI IMI	Russell 2000
18.4% (17.4% net of fees)	13.1%	9.0%	9.2%	9.0%	7.8%

We're proud we've accomplished these long-term results against an unfavorable micro- and small-cap backdrop[4], and we predict our second decade will benefit from a more fruitful micro/small-cap landscape given their more attractive relative valuation versus large-cap stocks. Better still, we think the types of micro-cap companies we invest in are exceptionally well positioned.

[1]According to MSCI, the Barra Profitability Factor "measures the return to equity and debt holders as well as the company's profit margin. The descriptors in this factor are Sales Profit Margin, Return on Equity, Return on Assets, and the ratio of earnings to enterprise value." At 12/31/24, the Fund had 90% of the portfolio invested in companies that were profitable in the latest reported quarter, significantly higher than the benchmark

[2]We executed on a leadership, philosophy, and investment process change effective 1/1/2015. These performance results are provided as supplemental information.

[3]The top 10 holdings represented 38.7% of the S&P 500 Index as of 12/31/24, a record.

[4]Over the past 10 years, the Russell 2000 Growth Index underperformed the larger-cap Russell 1000 Growth Index by 869 basis points annualized.

AVERAGE ANNUAL TOTAL RETURNS ***(as of December 31, 2024)***

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 1/1/1996
Micro-Cap Growth (gross of fees)	**3.45%**	**24.36%**	**10.83%**	**22.64%**	**18.37%**	**13.52%**
Micro-Cap Growth (net of fees)	**3.26%**	**23.36%**	**9.82%**	**21.63%**	**17.36%**	**12.49%**
Russell Microcap Growth Index	11.55%	21.91%	-2.24%	5.72%	5.30%	N/A

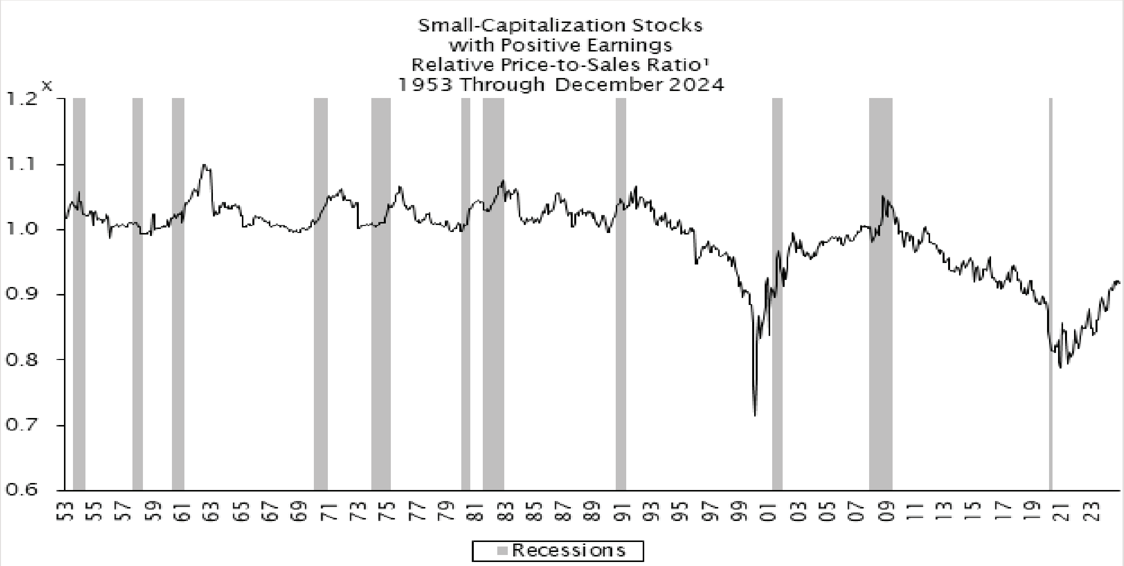
Past performance is not necessarily indicative of future results. Performance is historical and includes the reinvestment of dividends and other income. Unusually high returns may not be sustainable. The strategy invests in rapidly growing smaller and medium-sized companies that may offer greater return 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.

Celebrating 10 Years (continued)

We've shown the chart below before but it's so compelling we can't help but show it again. Profitable small-cap companies (of which micro-caps are a subset) are generationally cheap relative to the entire small-cap universe, and we believe mean-reversion will continue in the years ahead. Why? A more normalized interest rate regime. Those who debate "higher for longer" are missing the point; it's about taking the post-Global Financial Crisis free-money punch bowl away. Seven percent mortgage rates and a 4.5% 10-year Treasury yield are quite average for those who understand that financial history stretches into the previous century.



Source: Empirical Research Partners Analysis.
[1] Capitalization-weighted data, relative to all small-cap stocks.

Our long-term success is driven by a fundamental, behavioral-based investment process: we specifically target companies generating a significant positive earnings surprise driven by a misunderstood and durable fundamental change that's likely, based on our research, to persist into the future. We believe this unwavering company-specific approach gives us a long-term advantage over those who needlessly fret about the macro issue du jour. Over the last decade we've remained steadfast in our approach despite macro "issues" like Brexit, the US-China trade war, the COVID-19 pandemic, the Russo-Ukrainian war, and the Israel-Hamas war. Similar events are a virtual certainty over time, but in the end it's our attention to earnings surprise and positive change at the company level that carries the day. Everything else is just extraneous noise.

2025 Outlook

Speaking of macro, those predicting a recession in 2024 were predictably wrong again. We suppose they'll be right eventually. In the meantime, the economy looks relatively stable, bolstered by three rate cuts to end the year. The consumer, who drives 68% of US GDP, is more employed than average and remains the healthiest they've been in decades based on household debt service ratio. Earmarked government stimulus should continue to flow in 2025. The better news is small-cap earnings growth is expected to eclipse 15% this year and accelerate as the year progresses[5]. We believe this is likely to increase investor attention on profitable micro-caps and expand our earnings surprise universe.

What could go wrong? Plenty, but that's usually the case. President Trump's second term brings some uncertainty related to trade and tax policies. New tariffs that are materially higher than those instituted during his first term could stoke tensions between the US and China and rekindle inflation (although they may disproportionately benefit micro-cap stocks compared to large-caps, which have more cross-border exposure). Additionally, many of the temporary tax cuts enacted in 2017 are set to expire at the end of 2025, and we are concerned extending current tax policy – or cutting taxes even further – could rile the bond market and drive interest rates higher if government spending cuts can't more than offset tax-policy changes. At some point the bond market may say "no mas" as we inch ever closer to a fiscal problem in this country. Both issues represent potential traps for the stock market that could drive volatility higher in the short-run. As always, we'll use those opportunities to add to our positions in companies where we have high conviction that forward earnings expectations are significantly underestimated.

[5]According to Jefferies research.

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Portfolio Highlights

As of December 31, 2024, the portfolio was 97.2% invested in 86 positions. The portfolio had its largest over-weightings in technology (26.5% average weighting during the quarter versus 19.1% for the Russell Microcap Growth Index) and industrials (20.3% versus 14.8%). The portfolio was most underweight health care (24.2% versus 37.9%) and consumer staples (1.5% versus 3.6%).

Performance in the fourth quarter was positively impacted by strong stock selection in communication services (where our holdings returned +23.5% versus a 1.1% return for the benchmark's communication services holdings) and materials (3.2% versus -8.5%). Performance also benefited from our underweight health care allocation and our overweight technology allocation. Performance was negatively impacted in the quarter by our stock selections in technology (9.7% versus 42.6%) and healthcare (-9.2% versus -2.6%).

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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