

# OBERWEIS SMALL-CAP OPPORTUNITIES FUND MARKET COMMENTARY

1Q 2025

## The Quarter in Review

The Oberweis Small-Cap Opportunities Fund returned -11.10% in the first quarter of 2025 versus -11.12% for the Russell 2000 Growth Index, slightly outperforming on a relative basis. At times, short-term performance may be negatively impacted when correlations among equities are abnormally high, implying that market participants are not pricing companies based primarily on company-specific fundamentals, but rather on other macro-related factors.

Last quarter we warned that “uncertainty related to trade and tax policies” in President Trump’s second term “represent potential traps for the stock market that could drive volatility higher in the short run.” That volatility appeared in February as the market started to process increasingly contentious trade dynamics with long-time allies Canada and Mexico, and accelerated in early April as President Trump adopted a “shock and awe” strategy to revamp America’s trading relationships with the entire world.

We sympathize with the president’s view that free trade should also mean fair trade, and for decades fairness has been secondary with numerous trading partners. However, the country-by-country tariff rates initially proposed by the president on April 2 stunned the business and geopolitical worlds and forced investors to discount a potential extreme impact scenario on economic growth and corporate profits. Merely a week later, the president granted a reprieve from that scenario, softening to a 10% tariff rate for 90 days for countries that didn’t retaliate following his initial salvo. Tariffs against China, however, remain at alarming levels and are untenable to both countries for an extended period.

Although we may have sidestepped a calamity for the moment, the risk to the economy, businesses and the markets remains high. The administration’s ever-changing economic policy is creating high levels of uncertainty that will likely impact businesses, as evidenced by a record-high (some 40% higher than the pandemic reading) in the U.S. Economic Policy Uncertainty Index<sup>1</sup>. Companies are telling us they face high variability of business outcomes in 2025, and business planning is incredibly challenging given unknown and ever-changing cost structures. Furthermore, uncertainty usually prompts businesses to be more cautious with their growth plans. New initiatives are postponed or abandoned because return-on-investment calculations can’t be trusted. Layoffs are possible as companies look to offset declines in gross margin.

Furthermore, there is likely to be a negative impact on the consumer as tariffs lead to inflation and, potentially, higher unemployment. Businesses will raise prices to mitigate margin declines. Those who amusingly argue tariff-related inflation is “temporary” are, in our view, misguided. While the rate-of-change math behind inflation might be temporary, the impact on price is permanent as a new pricing plateau is reached. Companies that raise prices in response to tariffs won’t reduce them in the future. Did prices really fall after the pandemic subsided and the supply chain returned to normal?

<sup>1</sup>According to an Emprical Research Partners note dated 3/28/25, the U.S. Economic Policy Uncertainty Index is at a record-high dating to the index’s inception in 1985. The U.S. Economic Policy Uncertainty Index is comprised of three components: the first component is an index of search results for “uncertainty” from 10 large newspapers, the second component draws on reports by the Congressional Budget Office (CBO) that compile lists of temporary federal tax code provisions, and the third component draws on the Federal Reserve Bank of Philadelphia’s Survey of Professional Forecasters.

### AVERAGE ANNUAL TOTAL RETURNS (as of March 31, 2025)

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 9/15/96	Gross/Net Expense Ratio*
<b>Oberweis Small-Cap Opportunities Fund Institutional Class (OBSIX)**</b>	<b>-11.10%</b>	<b>-6.07%</b>	<b>4.84%</b>	<b>22.43%</b>	<b>11.70%</b>	<b>8.65%</b>	<b>1.01%/1.00%</b>
<b>Oberweis Small-Cap Opportunities Fund Investor Class (OBSOX)</b>	<b>-11.18%</b>	<b>-6.29%</b>	<b>4.59%</b>	<b>22.12%</b>	<b>11.42%</b>	<b>8.38%</b>	<b>1.26%/1.25%</b>
Russell 2000 Growth Index	-11.12%	-4.86%	0.78%	10.78%	6.14%	6.58%	

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](http://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](http://oberweisfunds.com) or call 800-323-6166. Read it carefully before investing.

\*Expense ratio as of December 31, 2024. Oberweis Asset Management, Inc. (OAM), the Fund’s investment advisor is contractually obligated through April 30, 2026 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)

While we sometimes mock those who try to predict recession, we do believe the probability of recession is increasing. There are some who believe the administration has a “grand plan” and is purposefully trying to induce a slowdown to force the Fed to reduce interest rates. A word of warning: trying to manage the economy is an inexact science akin to trying to turn around an oil tanker in a river. What we really worry about is the increasing probability of stagflation, or weak economic growth coupled with tariff-related inflation. The emergence of stagflation might impede the Fed’s ability and willingness to act as the administration anticipates.

The silver lining: we’ve seen indiscriminate selling of small-cap equities irrespective of a company’s fundamentals, including companies where the tariff impact is negligible. The circumstances and cast of characters are different, but we’ve seen this movie before. We are spending our days thinking about how ever-changing macro risks impact our current and potential investments, an analysis not without challenges. Although the short-term is fluid and highly uncertain, we know from decades of investing and market experience that chaos creates abundant opportunities for those who understand fear and volatility are only temporary. This type of environment typically leads to a significant outsized opportunity for our investment style and our Fund as the “fog of war” clears and uncertainty begins to dissipate. In our experience, periods where expectations become abnormally low offer among the very best times to invest in our strategy. So, while we expect continued near-term volatility, we are encouraged by the opportunity that likely lies ahead later this year and into 2026. The other important consideration: what were valuations at the start of this mess? Large caps were trading at the upper bounds of their historical range. Small caps offered more reasonable absolute valuations and have also notoriously underperformed large caps on a relative basis for over a decade. In our view, small caps continue to be the best house in the neighborhood on a prospective basis, bolstered by valuations relative to large caps that remain at generational lows. Better still, absolute valuations are also more favorable, with our universe P/E in early April some 23% below average<sup>2</sup> and the lowest since October 2022.

Whatever the macro circumstances, our mission, as always, is to identify and invest in companies that have generated an earnings surprise driven by a misunderstood fundamental change. The success of many of our investments is predicated by idiosyncratic factors allowing them to grow and take market share irrespective of underlying economic trends. While our companies have international exposure, our view is that exposure is broadly less than the exposure of the S&P 500 multinationals.

## Fund Highlights

As of March 31, 2025, the Fund was 97.4% invested in 80 different positions. The Fund had its largest over-weightings in consumer discretionary (19.1% average weighting during the quarter versus 9.9% for the Russell 2000 Growth Index) and technology (28.6% versus 20.0%). The Fund was most underweight industrials (14.7% versus 22.7%), health care (17.6% versus 24.2%), and financials (5.4% versus 8.6%). While some might find our weighting in consumer discretionary curious given the current environment, we see compelling valuations in that sector broadly and note that exposure includes companies in industries including child care, education, home construction (with a falling rate environment and tight home supply), and fitness.

Overall performance was positively impacted by stock selection, which added nearly +180 basis points of performance in the first quarter. Picks were particularly favorable in consumer discretionary (where our holdings returned -11.65% versus a -16.80% return for the benchmark’s consumer discretionary holdings), technology (-16.27% versus -18.87%), and health care (-2.74% versus -6.20%). Our stock selection in consumer staples (-9.73% versus +0.64%) and energy (-18.93% versus -10.23%) detracted from performance during the quarter. Despite the favorable relative stock selection, performance was negatively impacted by selection effect. Specifically, we were underweight the five best-performing sectors during the quarter (real estate, consumer staples, utilities, health care, and financials), sectors that we are typically underweight given inconsistent growth characteristics relative to our investment philosophy.

## Organization Update

There was no change to the team during the quarter.

<sup>2</sup>As of 4/7/2025. Our universe forward P/E, tracked weekly since July 2017, includes all companies under \$5 billion in market capitalization that have reported a minimum 10% earnings surprise in the latest reported 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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