

OBERWEIS MICRO-CAP FUND MARKET COMMENTARY

1Q 2025

The Quarter in Review

The Oberweis Micro-Cap Fund returned -12.91% in the first quarter of 2025 versus -17.75% for the Russell Microcap Growth Index, outperforming the benchmark by 484 basis points. 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. We believe this can be magnified in the micro-cap marketplace because of the inherent inefficiency in the asset class.

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 Index¹. 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.

¹According 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 1/1/1996	Gross/Net Expense Ratio*
Oberweis Micro-Cap Fund Institutional Class (OMCIX)**	-12.91%	3.53%	7.74%	27.67%	15.36%	11.44%	1.22%/1.22%
Oberweis Micro-Cap Fund Investor Class (OBMCX)	-13.00%	3.25%	7.47%	27.34%	15.07%	11.16%	1.47%/1.47%
Russell Microcap Growth Index	-17.75%	-5.93%	-3.79%	8.16%	2.70%	N/A	

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.

*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 OBMCX to the extent that total ordinary operating expenses, as defined, exceed in any one year the following amounts expressed as a percentage of each Fund’s average daily net assets: 1.8% of the first \$50 million; plus 1.6% of average daily net assets in excess of \$50 million and for OMCIX 1.55% of the first \$50 million; plus 1.35% of average daily net assets in excess of \$50 million.

**Institutional Class shares OMCIX 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 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.

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The Quarter in Review (continued)

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?

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 micro-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 (with micro-cap as a subset) 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 and micro-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 small cap P/E in early April some 23% below average² and the lowest since October 2022.

Whatever the macro circumstances, our mission, as always, is to identify and invest in micro-cap 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 micro-cap investments do 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 96.2% invested in 86 different positions. The Fund had its largest over-weightings in technology (27.2% average weighting during the quarter versus 20.5% for the Russell Microcap Growth Index), industrials (19.9% versus 15.4%), and consumer discretionary (10.4% versus 6.3%). The Fund was most underweight health care (23.3% versus 34.7%, primarily because of our consistent biotech industry underweight), financials (6.1% versus 8.6%), and consumer staples (1.8% versus 3.7%).

Performance in the first quarter was positively impacted by strong relative stock selection in health care (where our holdings returned -0.90% versus -16.8% for the benchmark’s health care holdings), technology (-25.9% versus -31.1%), and industrials (-14.2% versus -17.1%). Our stock selections in energy (-19.0% versus -11.3) and financials (0.0% versus 2.1%) detracted from performance.

Organization Update

There was no change to the team during the quarter.

²As 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.



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Oberweis Asset Management 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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