

OBERWEIS SMALL-CAP OPPORTUNITIES FUND MARKET COMMENTARY

4Q 2025

The Quarter in Review

The Oberweis Small-Cap Opportunities Fund returned 3.67% in the fourth quarter compared to 1.22% for the Russell 2000 Growth Index. In a particularly difficult year where only 19% of small cap growth managers beat the benchmark, we returned 14.62% in 2025 versus 13.01% for the index, an outperformance of 161 basis points.

To say 2025 was wild might be the understatement of the year itself. Seldom in our long careers – absent the Global Financial Crisis and the pandemic – have we had to navigate such tricky and ever-changing market currents. Volatility related to tariffs early in the year gave way to a surprisingly severe quality crash in small caps last fall, a dislocation that was only partially resolved by year-end. Our Fund, which is 93% invested in profitable companies¹, was buffeted by headwinds as both profitability² (the non-earners performed best in 2025) and earnings quality³ were performance drags during the year. We’re not sure why this occurred but we know historically that quality mean-reverts quickly and both factors are positive performance drivers over the long-term.

As we look forward to 2026, we still see a generational opportunity related to small cap companies compared to large caps. Our universe is about as loved as a below-zero winter day in Chicago, and it remains shockingly cheap on numerous relative performance metrics⁴. Large caps have led for over a decade, but we remind those with recency bias that small caps have led over the long-term.

The universal proxy for “the market” – the S&P 500 – is now the most top-heavy in history with the top 10 stocks representing 41% of that cap-weighted index. While the consensus opinion is their “magnificence” is deserved, history suggests otherwise. A decade from now, a majority of those 10 companies will likely no longer be market darlings, just as past heavyweights have lost their luster. In 1975, General Motors and Ford were two of the three largest companies in America. In 1985, IBM reigned supreme. A decade later, the market was led by GE and AT&T, and by 2005 the biggest of the big were GE and Exxon. Only two companies in the top 10 a decade ago (Apple and Microsoft) are still there today. Go against history at your own risk.

One possible danger for those dearly beloved: free cash flow compression. AI hyperscaler spending is projected to increase from \$240 billion in 2024 to over \$600 billion in 2027 as tech titans face a high stakes prisoner’s dilemma: spend aggressively on AI with an uncertain return on investment or sit on the sidelines and face potentially fatal business-model risk. In our experience, free cash flow compression and declining ROI usually equals multiple compression.

¹As of 12/31/2025, 92.7% of the Fund was invested in companies that were profitable in their latest reported quarter.

²MSCI Barra US Small Cap 4 Model factor performance during 2025. 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.”

³MSCI Barra US Small Cap 4 Model factor performance during 2025. The Earnings Quality Factor “explains the return differences between high earnings quality and low earnings quality stocks”. The descriptors in this factor are accruals, cash-earnings-to-earnings ratio, and variability of sales.

⁴According to Jefferies, the Russell 2000 Index, relative to the Russell 1000 Index, trades at a 24% discount on trailing P/E (vs long-term average), a 26% discount on price/book, and a 20% discount on price/sales

AVERAGE ANNUAL TOTAL RETURNS (as of December 31, 2025)

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 9/15/96	Gross/Net Expense Ratio*
Oberweis Small-Cap Opportunities Fund Institutional Class (OBSIX)**	3.67%	14.62%	15.69%	14.69%	15.34%	9.37%	1.01%/1.00%
Oberweis Small-Cap Opportunities Fund Investor Class (OBSOX)	3.59%	14.28%	15.41%	14.41%	15.05%	9.09%	1.26%/1.25%
Russell 2000 Growth Index	1.22%	13.01%	15.59%	3.18%	9.57%	7.28%	

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.

*The gross expense ratio of expense off set arrangements and expense reimbursements was 1.26% and 1.01% for year ended December 31, 2025 in OBSOX and OBSIX, respectively. 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)

Interestingly, we are starting to think the risk to the megacaps could be a panacea for small companies. We wonder aloud if the productivity benefits from AI workflows could disproportionately accrue to smaller companies that are less bureaucratic, nimbler, and more likely to benefit incrementally from “white collar robotics” efficiency gains. It seems reasonable to question the ability of highly complex multi-national conglomerates to benefit from AI. The opportunity is large: only 17% of US businesses are currently using AI in any business function, and we are starting to think the margin benefits for small cap businesses might be material. AI is a force multiplier and could help smaller companies act big without a lot of cost. Historically, the cost of automation was more prohibitive for small companies and AI is changing that.

Not all small cap companies are created equal, however. Nearly 40% of the small cap universe is comprised of unprofitable companies, a byproduct of a decade-plus of easy money. Profitable small caps – which is our fishing pond – are even cheaper and represent, in our view, one of the most attractive subsets of the U.S. equity market. We see it in our universe P/E, which remains below median, and in the valuation upside of our individual holdings. Our belief: profitable U.S. small caps will outperform the U.S. equity market over the next 10 years driven by a more normalized cost of capital versus the pre-pandemic period. To think otherwise is to think it will be different this time, and that’s a market lesson as old as time.

A word of caution about everyone’s favorite boogeyman – the “macro risk.” The market likes to throw an occasional macro tantrum as we saw last spring, and there is currently an abnormally long list of potential pitfalls. Foreign policy hotspots are more abundant than usual and could goose volatility. The midterm elections have economic implications and could be particularly contentious this year. President Trump’s desire to reduce long-term interest rates could be impeded by market forces more concerned about sustained deficits, tariff policy, and Federal Reserve independence, which may prompt him in turn to respond with characteristically bold executive action. Interestingly, we think a sustained and normalized cost of capital would be good for our Fund because it would force investors to focus more on earnings and valuation – long hallmarks of our approach.

As skilled stock pickers, however, we believe not in a stock market but in a market of stocks. High volatility creates disconnects between company fundamentals and stock prices that provide us with a target-rich investing opportunity. Our bottom-up strategy has always been focused on investing in businesses with idiosyncratic attributes that we believe will result in positive earnings surprises driven by misunderstood fundamental change. While the earnings multiples paid for such companies can vary in the short-run, we believe a diversified portfolio of companies with better-than-expected earnings growth prospects is likely to outperform the market in the long-run.

Fund Highlights

As of December 31, 2025, the Fund was 96.7% invested in 78 different positions. The Fund was most overweight technology (42.9% average weighting during the quarter versus 22.1% for the Russell 2000 Growth Index) and consumer discretionary (14.2% versus 8.5%). The Fund was most underweight healthcare (14.5% versus 24.2%) and financials (4.3% versus 9.8%).

Performance in the fourth quarter was positively impacted by strong stock selection in technology (where our holdings returned +7.9% versus a -4.6% return for the benchmark’s technology holdings) and industrials (+2.9% versus -3.1%). Performance was negatively impacted in the quarter by our stock selection in healthcare (4.2% versus 18.1%), as well as our underweight allocation to that sector. The biotech industry, which we are consistently underweight because of an incongruence with our investment philosophy, was the primary reason for the Fund’s healthcare shortfall in the quarter. Biotechs within the Russell 2000 Growth Index, many of which are unprofitable, returned 28.1% during the period.



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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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