



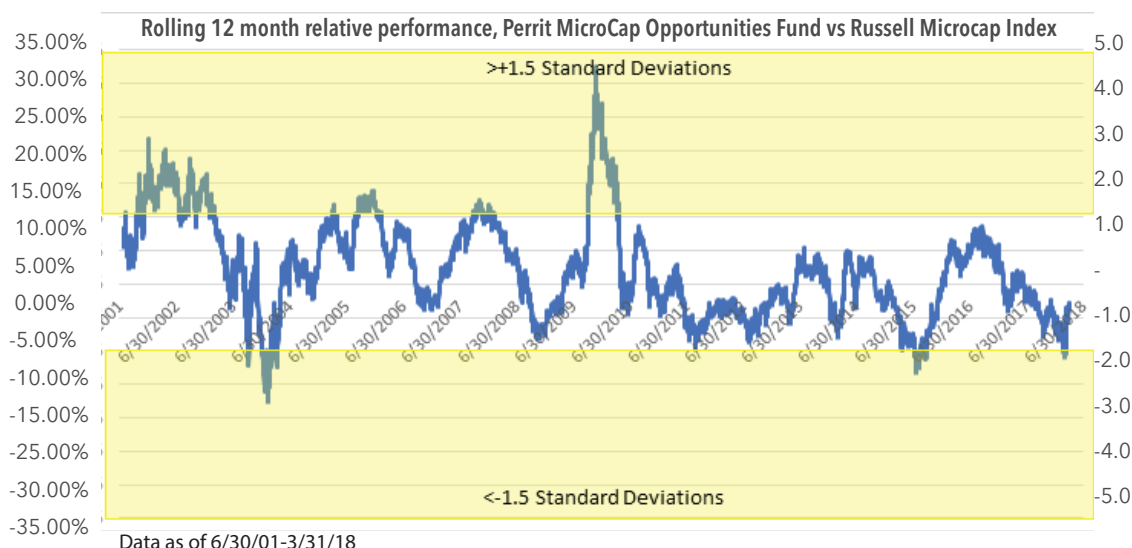
George Metrou
Portfolio Manager

Jekyll and Hyde Quarter

The first quarter of 2018 was remarkable in several ways. We saw record highs in equity markets, but also a fierce resurgence in volatility. To some degree, the first quarter was a Jekyll and Hyde type of period. The first half of the quarter was characterized by a low volatility, momentum driven, continuation of the themes that carried 2017. While the second half of the quarter brought in a new regime, with explosive volatility, a refocusing of investors attention on fundamentals, and new leadership in the market. The rest of our commentary this quarter will help explain how the Perritt MicroCap Opportunities Fund (“the fund”) performed during these two distinct market environments, and the reasons behind that performance.

As an active manager, the fund has a less than 1.0 correlation to its benchmark as of 3/31/18. This is driven by distinct sector weight differences, weighting of individual stocks in the portfolio, and stylistic investment differences from the composition of the benchmark. The fund has regularly experienced significant positive and negative deltas in performance relative to the benchmark.

Below is a chart of the rolling delta of trailing 12-month performance between the fund and the Russell Microcap Index (“the benchmark”) as of 3/31/2018:



AVERAGE ANNUALIZED TOTAL RETURNS (%) as of March 31, 2018

	YTD	1YR	3 YR	5 YR	10 YR	20YR
Perritt MicroCap Opportunities Fund *4/11/1988	0.63%	10.53%	8.52%	10.29%	8.24%	9.24%
Russell Microcap Index	0.67%	13.51%	8.04%	11.76%	9.19%	-

* Inception date

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 800-331-8936. The funds impose a 2% exchange and redemption fee for shares held 90 days or less. Performance data quoted does not reflect the redemption or exchange fee. If reflected, total return would be reduced. Gross expense ratio is 1.24%.



We find the 12-month rolling performance delta, from the 6/30/2000 inception of the benchmark through 3/31/2018, to be a highly mean reverting series. The average 12-month performance delta since 6/30/2000 is +2.3%, reflecting our long-term outperformance. The standard deviation is 7.2%, which indicates that there can be periods where we significantly outperform or underperform.

On a trailing 12-month basis, our performance relative to the benchmark Russell Microcap Index during the first quarter of 2018 reached -10.83%. This represented -1.8 standard deviations from our mean rolling 12-month performance since 2001. An extreme that lies in the bottom 98th percentile of relative 12-month returns. This was an outcome we were quite displeased with, but one we understood to be an extreme, and yet, also not unprecedented. After being participants in the U.S. Microcap equity market for nearly 30 years, we understand cycles, even extremes ones, come and go. Historically however, +/- 1.5 standard deviations has been a reliable inflection point for mean reversion of our relative performance.

In the final analysis, we believe a confluence of market factors led to this recent period of underperformance, which hit a nadir in the middle of the first quarter of 2018. We trace the sources of this underperformance to the following factors: 1) disproportionate share of market gains being produced by narrow segments of the market, which we do not participate in, 2) outperformance of larger markets capitalization names within the index, vs. the sub-\$500mm market capitalization segment we target, 3) stylistic headwinds, namely growth outperforming value, and 4) larger errors of commission than our historical average. It was our belief that many of these factors are reliably mean reverting. And thus, we expected performance to rebound from the February lows. Which it did in the second half of Q1, wonderfully.

We expect our performance to continue to positively and significantly mean revert. Despite the cyclically of underperformance and outperformance periods, the fund has outperformed its benchmark since inception.

Drivers of Recent Underperformance

1. Concentration of benchmark performance in Healthcare (Biotech/Pharma) and Technology (Internet Software/Software):

Below is the Russell Microcap Index attribution from 3/7/2017-3/7/2018. This period captures the trailing 12-month period ending at the low point of our recent underperformance cycle.

Security Level			
3/7/2017-3/7/2018			
Grouping/Securities	Portfolio Weight	Portfolio Return	Portfolio Contribution
Russell Microcap Index	100.00%	18.91%	18.91%
Consumer Discretionary	12.14	13.90	1.77
Consumer Staples	1.84	19.53	0.36
Energy	4.43	-16.71	-0.70
Financials	25.31	12.53	2.97
Healthcare	21.92	38.35	8.03
Industrials	11.77	15.87	1.87
Information Technology	13.39	23.70	3.27
Materials	2.90	12.35	0.38
Real Estate	3.94	1.80	0.20
Telecommunication Services	1.00	77.66	0.73
Utilities	1.36	-2.19	0.02

Source: Capital IQ.

The Russell Microcap Index gained 18.91% from 3/7/2017-3/7/2018. However, the majority of sectors "underperformed." Two sectors alone drove 60% of the index performance. Healthcare, which gained +38.35%, added +803bps to the return and Technology, which gained +23.70%, added +327 bps to the return.

The Telecomm sector performance was primarily driven by a single company being acquired (STRP), and the sector's low weighting (1.0%) causes the contribution to be relatively immaterial. The Healthcare (index weight of 21.9%) plus Technology (index weight of 13.4%.) sectors were the strongest contributors within the Russell Microcap Index.



Roughly 40% of the index performance has been concentrated in the subsectors of Biotechnology, Pharmaceutical and Software. As a value-oriented manager who strives to build a portfolio of securities issued by companies with sustainable, profitable business, we find ourselves unable to generate many investable ideas in these subsectors. During the prior year, the fund maintained a 0% exposure to the Biotech/Pharma sectors, and a 2.8% exposure in Software, all significantly below the benchmark weights.

Russell Microcap Index Top 25 Performing Stocks During This Period

Rank	Company	Ticker	% of Return 3/7/2017- 3/7/2018	Sector	Market Capitalization (\$ millions)	2017 Revenue (\$ millions)	2017 Earnings (\$ millions)
1	Madrigal Pharmaceuticals, Inc.	NasdaqCM:MDGL	793.0%	Biotechnology	1,712.2	-	-31.2
2	Sangamo Therapeutics, Inc.	NasdaqGS:SGMO	521.7	Biotechnology	1,679.3	36.6	-54.6
3	ION Geophysical Corporation	NYSE:IO	504.3	Oil & Gas Equipment & Service	410.4	197.6	-30.2
4	Mirati Therapeutics, Inc.	NasdaqCM:MRTX	464.2	Biotechnology	881.2	-	-70.4
5	Straight Path Communication Inc.	AMERX:STRP	458.8	Telecommunications	2,360.4	0.7	-55.2
6	Zogenix, Inc.	NasdaqGM:GNX	381.4	Pharmaceuticals	1,428.7	9.8	-126.8
7	Dicerna Pharmaceuticals, Inc.	NasdaqGS:DRNA	379.0	Biotechnology	543.0	2.3	-60.0
8	GTx, Inc.	NasdaqCM:GTXI	352.6	Biotechnology	363.5	-	-30.4
9	MyoKardia, Inc.	NasdaqGS:MYOK	347.2	Pharmaceuticals	1,796.2	22.5	-46.0
10	uniQure N.V.	NasdaqGS:QURE	345.4	Biotechnology	979.9	13.1	-79.3
11	Verso Corporation	NYSE:VRS	344.1	Paper Products	615.4	2,461.0	-30.0
12	AnaptysBio, Inc.	NasdaqGS:ANAB	342.7	Biotechnology	2,205.3	10.0	-30.1
13	CymaBay Therapeutics, Inc.	NasdaqCM:CBAY	340.4	Pharmaceuticals	759.9	10.0	-27.6
14	Vericel Corporation	NasdaqCM:VCEL	339.3	Biotechnology	455.5	63.9	-17.3
15	eGain Corporation	NasdaqCM:EGAN	329.7	Internet Software and Services	248.3	58.4	-3.9
16	XOMA Corporation	NasdaqGM:XOMA	318.6	Biototechnology	194.3	52.7	14.6
17	QuinStreet, Inc.	NasdaqGS:QNST	318.2	Internet Software and Services	529.4	335.6	2.6
18	Conn's Inc.	NasdaqGS:CONN	306.7	Computer & Electronics Retail	883.5	1,516.0	6.5
19	Immunomedics, Inc.	NasdaqGM:IMMU	273.1	Biotechnology	2,798.3	3.3	-233.8
20	Systemax Inc.	NYSE:SYX	263.4	Technology Distributors	1,067.2	1,265.4	40.4
21	AxoGen, Inc.	NasdaqCM:AXGN	255.7	Healthcare Equipment	1,404.9	60.4	-10.4
22	Arrowhead Pharmaceuticals, Inc.	NasdaqGS:ARWR	251.9	Biotechnology	608.4	30.6	-35.5
23	Zion Oil & Gas, Inc..	NasdaqGM:ZN	251.6	Oil and Gas Exploration and Prod.	250.0	0.00	-10.0
24	Corium International	NasdaqGM:CORI	248.6	Pharmaceuticals	389.1	34.2	-50.7
25	Overstock.com, Inc.	NasdaqGM:OSTK	239.3	Internet & Direct Marketing Retail	1,115.5	1,744.8	-109.9

Of the top twenty-five performing stocks in the index, fifteen are Biotech/Pharma related. Of those same twenty-five, only four are profitable companies, and nine have \$10mm or less in revenues.

The top 25 performing stocks show an unusual degree of extreme price performance with an average gain of 359%, as well as narrow industry concentration.

MICROCAP OPPORTUNITIES FUND Top 10 Holdings as of 3/31/2018

Bluelinx Holdings, Inc. (BXC)	4.0	Hill International (HIL)	2.3
Addus Homecare Corporation (ADUS)	3.4	Silvercrest Asset Mangement (SAMG)	2.2
Northern Technologies Intl. Corp. (NTIC)	2.5	Omnova Solutions Inc. (OMN)	2.2
First Internet Bancorp (INBK)	2.5	Bankwell Financial Group, Inc. (BWFG)	2.2
Ooma, Inc. (OOMA)	2.3	Miller Industries, Inc. (MLR)	2.2



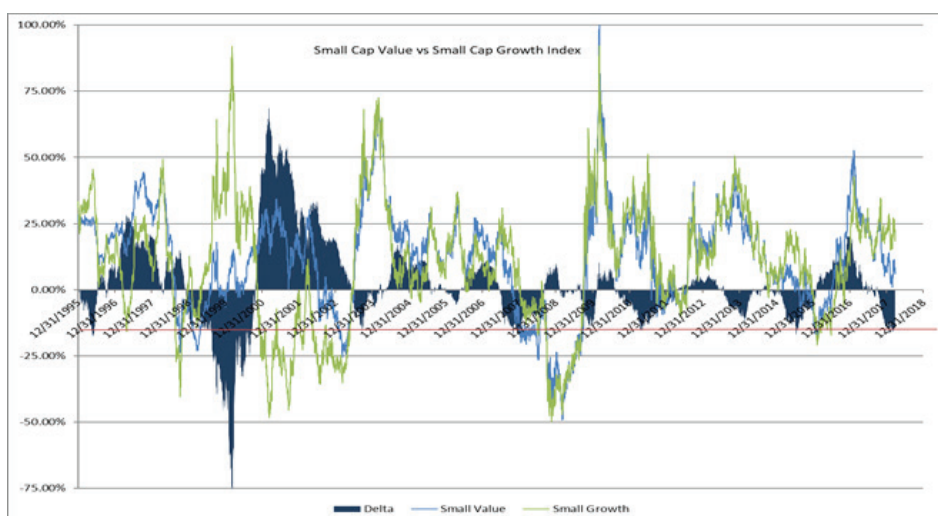
2. Performance By Market Capitalization segment 3/7/2017-3/7/2018:

3/7/2017-3/7/2018 Performance, Russell Microcap				
Mkt Cap Range	Positive Performance	Negative Performance	Breadth	Median Gain/Loss%
\$2b+	55	32	1.72	10.19%
\$500mm-\$2b	160	85	1.88	9.58
\$150-\$500mm	454	258	1.76	8.62
\$10mm-\$150mm	356	340	1.05	1.11
Overall:	1025	715	1.43	6.06

Stocks with larger beginning market capitalizations significantly outperformed stocks of smaller sized companies. The fund targets companies with market capitalizations of less than \$500mm, and has a median market cap of \$309mm.

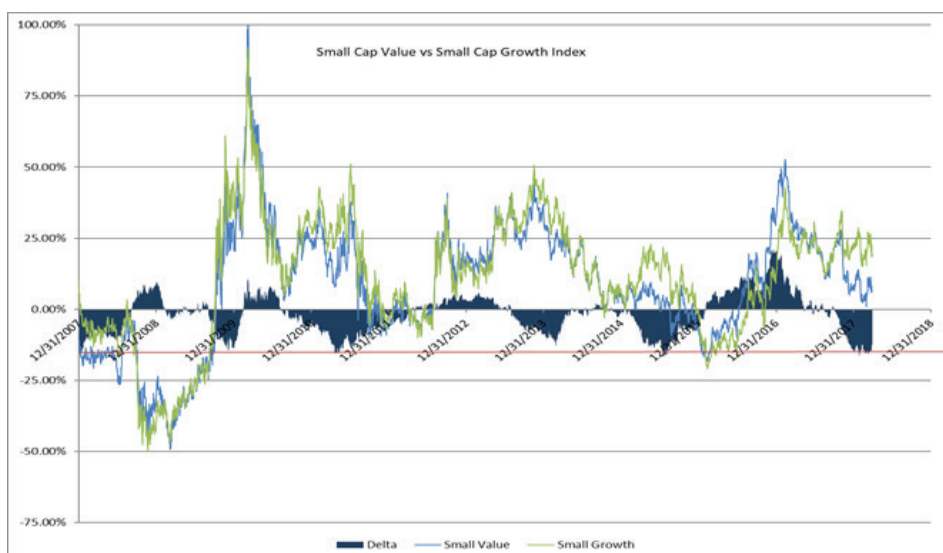
3. Growth vs. Value

Chart of Russell 2000 Value Index vs. Russell 2000 Growth Index 12/31/1995 -3/31/2018



Even including 1999-2001 extremes, growth and value factors were reliably mean reverting.

Chart of Russell 2000 Value Index vs. Russell 2000 Growth Index 3/31/2008-3/31/2018





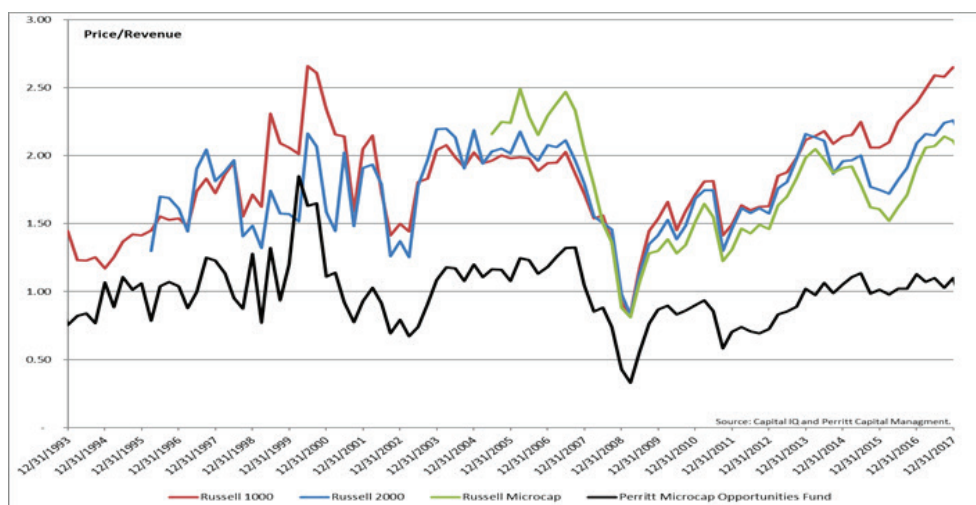
Growth has significantly outperformed value in the previous 14 months. We find growth vs. value relative performance to be highly mean reverting. The level of growth outperformance reached in Q1 2018 has previously been an inflection point a number of times over the past 10 years.

We also measure growth vs. value by the performance of securities grouped by valuation:

Gain/Loss %	
3/7/2017-3/7/2018	
> Mkt EV/Rev	10.30%
< Mkt EV/Rev	-4.85%

Higher multiple stocks have significantly outperformed stocks trading at lower valuations. The fund median revenue multiple is currently approximately 1.0x, less than half the Russell Microcap Index median revenue multiple of 2.1x.

Chart of Median Price to Revenue Multiple in the Russell 1000, Russell 2000, Russell Microcap, and Perritt MicroCap Opportunities Fund 12/31/1993-3/31/2018:



As a value focused manager, we have historically managed the fund with a significantly lower level of valuation than the broader markets and benchmark. We find broader market valuations to currently be well above average. In our opinion, the securities we have in the portfolio provide a better long-term risk/reward opportunity.

4. Errors of Commission

The fund's top and bottom performers as measured by contribution to the fund's performance:

Security Level	
3/7/2017 - 3/7/2018	
Grouping/Securities	Portfolio Contribution
Perritt Microcap Opportunities	9.16%
Portfolio Contribution (Top 5)	6.35%
Portfolio Contribution (Bottom 5)	-4.23%



As our mission has always been, the fund has continued to capitalize on unique opportunities we find in the microcap asset class. Our top five performing positions contributed +635bps to our return. However, our bottom five performing positions detracted -423bps. While it is of significant importance in our minds to have your winners contribute more than the losers detract, the spread of winners-losers was less than we target. Historically, we have a positive spread in our top five vs. bottom five. In the preceding 5 years (2011-2016) we had a ratio of top five contribution to bottom five deduction of roughly 3:1. In the recent period this ratio is 1.5:1. The narrower spread has been driven by larger than historical deductions by individual positions.

Mean Reversion and the Performance Turnaround

As we've now stated many times in this commentary, we firmly believed our performance had potential to recover based on the historical evidence that many of the drivers of our underperformance were reliably mean reverting. From 3/7/2018 through the end of the quarter, the Perritt MicroCap Opportunities Fund gained +2.97%, while the benchmark declined -2.86%, for a performance delta of +583bps in three and a half weeks! This cut our rolling 12 month performance delta to the benchmark down to -3.06%.

While we believe that the securities purchased for the fund's portfolio trade at significant discounts to intrinsic value, the timing of the realization is often highly uncertain. In many cases, securities can trade at a significant discount for years. This can weigh on fund performance in the short term, as we hold these securities awaiting closure of the intrinsic value to market value gap. In our experience, the gap to intrinsic value, which may have been stubbornly persistent for years, can dramatically narrow in very short periods of time. As examples, we saw this dynamic in late Q1 in our top two holdings, BXC and ADUS.

BlueLinx Holdings Inc. (BXC), our top holding, is a stock that had underperformed the market for years. The company recently announced two major catalytic events, a real estate divestiture and an acquisition, which we had anticipated, and the stock moved from the \$15 range to \$32 to close the quarter (and now \$41 as of 4/23/2018). This is a 100%+ gain in a 3 week period from a stock which had "gone nowhere" for years.

Addus Homecare Corp. (ADUS), our second largest holding, presents a similar, though admittedly, less extreme case. Nevertheless, ADUS highlights how quickly the performance contribution from a single position can change from being a detractor to a contributor. We have held ADUS for many years and have a cost basis of less than \$7 per share. The stock closed the quarter at \$48 (and is \$54 as of 4/23/2018). Though a significant contributor to long-term performance, it is not a consistent contributor to performance. As an example, the stock closed 2017 down -1%, vs. a gain for the Russell Microcap index of +13%. ADUS was a significant drag on the Fund's performance for the calendar year 2017, despite being a hugely successful long term holding. After announcing an acquisition in Q1 2018, the stock moved from ~\$34 to \$48 to close the quarter. The stock is now again outperforming the market, and a positive contributor to relative performance.

The combination of reliably mean reverting factors reversing from a headwind to a tailwind, discussed at length in this commentary, and the opportunity to generate significant individual security alpha, gives our team confidence in our ability to seek to continue our long-term outperformance going forward.



DISCLOSURES

The information provided herein represents the opinion of Perritt Capital Management and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

12-month rolling performance delta is the excess return of the fund versus the Russell Microcap Index.

Standard deviation is a measure of the dispersion of a set of data from its mean.

Basis Point (BPS) refers to a common unit of measure for interest rates and other percentages. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001.

Breadth is a mathematical formula that uses advancing and declining issues to calculate the amount of participation in the movement of the stock market.

EV/Rev (Enterprise Value to Revenue) is a measure of the value of a stock that compares a company's enterprise value to its revenue.

Price/Revenue is a valuation ratio that compares a company's stock price to its revenues.

Spread is the difference between the bid and the ask price of a security or asset.

Delta is the ratio comparing the change in price of the underlying asset to the corresponding change in the price of a derivative.

Alpha is the excess return of an investment relative to the return of a benchmark index.

Russell 2000 Index is an index that measures the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks.

Russell 2000 Growth Index measures the performance of companies within the Russell 2000 Index having higher price-to-book ratios and higher forecasted growth values.

Russell 2000 Value Index measures the performance of companies within the Russell 2000 Index lower price-to-book ratio and lower forecasted growth values.

Russell Microcap Index is a capitalization weighted index of 2,000 small-cap and micro-cap stocks that captures the smallest 1,000 companies in the Russell 2000, plus 1,000 smaller U.S.-based listed stocks.

Russell Microcap Growth Index measures the performance of those Russell Microcap companies with higher price-to-book ratios and lower forecasted growth values.

Russell Microcap Value Index measures the performance of those Russell Microcap companies with lower price-to-book ratios and lower forecasted growth values.

Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

The fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company and may be obtained by calling (800) 331-8936. Read carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. The fund invests in smaller companies, which involve additional risks, such as limited liquidity and greater volatility. The fund invests in micro-cap companies which tend to perform poorly in times of economic stress

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