Oberweis
Asset Management

CHINA OPPORTUNITIES STRATEGY

4Q 2016

The Quarter in Review

For the quarter ending December 31, 2016, Oberweis China Opportunities Composite returned -9.35% (-9.75% net of fees) while its benchmark, the MSCI Zhong Hua Small Cap Growth Index, returned -6.45%, an underperformance of 290 bps (330 basis points net of fees). For the full year, Oberweis China Opportunities Composite returned -7.24% (-8.49% net of fees) and MSCI Zhong Hua Small Cap Growth returned -12.78%, an outperformance of 554 bps (429 basis points net of fees).

During the quarter, Chinese equity markets (as well as most emerging markets) fell under great pressure after Donald Trump was elected, particularly amid technology and export-oriented sectors. Concern about RMB depreciation and capital outflows weighed on Chinese equity markets. However, on the fundamental front, we see better news. Our fundamental research indicates that Chinese macro-economic conditions continue to stabilize, supported by improving industrial profits and resilient consumer spending.

Trump's presidency could pose significant challenges for China. The obvious and most worrisome concern is the potential for an all-out trade war. If strong protectionist policies were implemented, it would certainly affect China's exporters, as the US has traditionally been China's top export destination. According to Morgan Stanley estimates, a 1% increase in prices of exports from China to the US would lead to a 1.7% decline in China's US exports. However, the feasibility, effectiveness and timing of any such tariffs is highly uncertain. While we expect that a full-fledged trade war between the US and China is not the most likely scenario, we are cognizant that possible trade disputes will continue to be an important variable for equity markets in 2017.

Another factor that put pressure on Chinese equity markets in the fourth quarter was currency depreciation and capital outflows. The RMB depreciated more than 4.09% in the quarter, exhibiting the highest volatility since China's foreign exchange regime reform in 1994. Foreign capital outflows also reached US$156 billion in the quarter. To be clear, RMB depreciation seems unlikely to spiral out of control anytime soon, as China's government still has plenty of policy tools at its disposal to combat undesired exchange rate movements and capital flows if necessary. Also, China still has the largest foreign exchange reserves in the world, more than enough to cushion capital outflows for the next few years. With depreciation of more than 12% since August 2015 already on the books, we believe that the worst of the RMB decline is already over. While fear of further currency depreciation may still be an overhang in the near term, we expect that it will diminish over time, especially if the strength of the US dollar begins to diminish relative to the Euro and Yen.

While many remain fearful of Chinese equities, fundamentals may prove less negative than many believe. Several major macroeconomic indicators have shown continuous stabilization in the fourth quarter, even after a very strong third quarter. Industrial profits increased by 9.4% in first eleven months of 2016, accelerating from 8.6% in October. The Non-Manufacturing PMI Index rose to 54.5% in December, which was its third consecutive month over 54%. Infrastructure fixed asset investment was up 18.9% in the first eleven months, driven by investment in transportation and environment facilities. Profits at "Old-China" firms continued to improve. Earnings of coal miners and petrochemical refiners increased by 157% and 215% respectively in November, offering an early sign of the potential effectiveness of China's "supply-side" reform. These reforms were designed to improve supply and demand dynamics by removing outdated and excess capacity among commodity and materials producers. "New China" sectors continue to be very resilient in the quarter, with online sales up 25% and profits of pharmaceutical companies up 15%. Importantly, stabilization of the macro-economy has provided sufficient room for Chinese policy makers to keep pushing for economic reforms and optimizing economic structure.

Quarter in Review (continued)

Another encouraging factor in the quarter was the launch of Shenzhen-Hong Kong Stock Connect, which demonstrates China's commitment to open its local financial markets to international investors. Shenzhen Connect is the second such connect program launched by the Chinese government, after the launch of the Shanghai Connect in 2015. Shenzhen Connect includes 881 companies with a total market capitalization of around US$2.2 trillion. The combined Shanghai and Shenzhen Connect schemes essentially creates the 2nd largest equity market globally by market capitalization (US$11tn) and the largest in terms of volume (US$82bn average daily value traded). The Shenzhen Connect opens up a brand new universe of companies for international investors. Many Shenzhen-listed companies are "New China" firms and embody China's transition from an investment-led growth economy to a consumption-driven economy. For instance, by sector, Shenzhen companies are more concentrated in emerging industries such as Tech, Media, and Healthcare, whereas the landscape in Shanghai tends to be more oriented towards "Old China" sectors such as Financials and Energy. Consensus earnings estimates now call for 25% 2016-18 EPS CAGR for Shenzhen, but around 10% for Shanghai A-shares.

Outlook

While global macro risks such as the political uncertainty in Europe and potential US protectionism are likely to stoke volatility in 2017, we believe that China will sustain its economic growth at a relatively high level of around 6-7% over the next few years, while simultaneously continuing to improve its economic structure. Within our portfolio, we primarily own niche-oriented companies whose success or failure is more predicated on product quality and successful execution versus growth in GDP. Indeed, our typical holding is growing well in excess of GDP. Many of our holdings are positioned to benefit from the structural economic and social changes in China. That said, valuation multiples do fluctuate from quarter-to-quarter and we often find it easier to find mispriced and undervalued companies in a period of high market volatility and negative investor sentiment. Such periods give rise to attractive valuations that, in our view, increase our ability to generate prospectively favorable returns.

Portfolio Highlights

During the quarter, the portfolio was 96.5% invested in 65 companies. The biggest contributors to the portfolio's relative outperformance versus its benchmark were energy and materials, primarily attributable to strong stock selection.

On the contrary, our biggest performance distractors were information technology and consumer discretionary.

Key Benefits

The China Opportunities strategy invests at least 80% of its net assets in China securities. Currently, China securities include equity securities of companies that are organized under the laws of The People's Republic of China, Hong Kong, Taiwan or Singapore. Companies that have at least 50% of their assets in China or derive at least 50% of their revenues from business activities in China are also included in China equity securities. Companies normally meet the Oberweis Aperture investment criteria prior to investing. Oberweis Asset Management was among the first to focus on smaller growth Chinese companies.

The key benefits of the China Opportunities strategy are:

- Participate in China's transformation from an emerging market to an economic power
- Benefit from the anticipated above-average growth of China's GDP over the next decade
- Take advantage of the powerful impact that China's emerging consumer class will have on the global demand for goods and services, as China continues to evolve from that of a rural to an urban-based society
- Access to attractive but lesser-known companies that lack formal institutional coverage but possess above growth potential
- Achieve a more effective asset allocation, and greater long-term diversification through investments in Chinese and Pacific Rim equities
- Low correlation to major foreign and U.S. markets
- Potential for significant alpha over a full market cycle

Minimum Account Size: $5 million for Institutional Account Management

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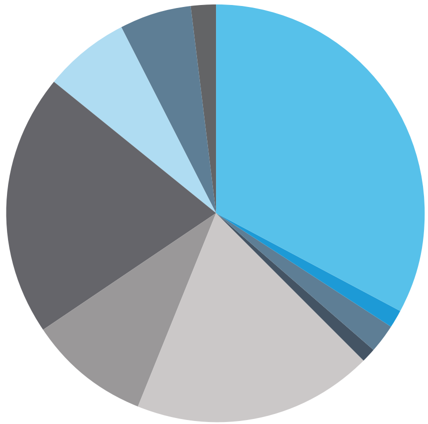
TOP TEN HOLDINGS *(as of December 31, 2016)*

	Company		Line of Business
1	iKang Healthcare Group, Inc.	5.5%	China's largest privately held medical services provider
2	Tencent Holdings Ltd.	5.2%	Leading internet services provider in China
3	TAL Education Group	3.6%	After-school tutoring provider for K-12 in China
4	China Biologic Products, Inc.	3.3%	Biopharmaceutical company engaged in research, development, manufacturing, and sales of human plasma-based pharmaceutical proodducts in China
5	Alibaba Group Holding Ltd.	3.3%	China's largest e-commerce provider
6	Shenzhou International Group	3.1%	Largest vertically integrated manufacturer of knitwear & exporter in China
7	Ctrip.com International Ltd.	3.1%	Travel service provider in China
8	New Oriental Education & Technology Group, Inc.	2.8%	Provides private educational services in China
9	CSPC Pharmaceutical Group Ltd.	2.6%	Leading Chinese pharmaceutical company focusing on innovative drugs
10	China Resources Phoenix Healthcare Holdings	2.1%	Hospital management services and supply chain provider in China

Top 10 holdings as a percentage of Total Net Assets. Portfolio Holdings are subject to change at any time. References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable. Source: Thomson Reuters Eikon

SECTOR WEIGHTINGS *(as of December 31, 2016)*

Consumer Discretionary	32.8%
Consumer Staples	1.5%
Energy	2.3%
Financials	1.1%
Health Care	18.5%
Industrials	9.4%
Information Technology	20.5%
Materials	6.4%
Real Estate	0.0%
Telecomm Service	0.0%
Utilities	5.8%
Cash	1.7%
Total	100.0%



Sector weightings as a % of Total Net Assets.

Source: Thomson Reuters Eikon used unless otherwise noted. Sector data based on MSCI's revised Global Industry Classification Standards. For more details, visit www.msci.com.

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AVERAGE ANNUAL TOTAL RETURNS ***(as of December 31, 2016)***						
	QTD	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**	**Since Inception 10/1/2005**
China Opportunities (gross of fees)	**-9.35%**	**-7.24%**	**-3.99%**	**13.21%**	**7.16%**	**13.03%**
China Opportunities (net of fees)	**-9.75%**	**-8.49%**	**-5.24%**	**11.93%**	**5.73%**	**11.59%**
MSCI Zhong-Hua Small-Cap Growth Index	-6.45%	-12.78%	-8.05%	3.98%	N/A	N/A

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 10-1-05 until 10-1-06 as well as 5-1-08 to present, are derived solely from the performance of the Oberweis China Opportunities Fund, a registered, open-end mutual fund, for which OAM serves as investment adviser. Accounts are dollar-weighted within the composite and reported in U.S. dollars.

The MSCI Zhong Hua Small-Cap Growth Index (Net) is a free float-adjusted market capitalization index that is designed to measure the performance of small cap stocks in the developed markets and emerging markets of China and Hong Kong excluding China A shares, with minimum dividends reinvested net of withholding tax. The MSCI Zhong Hua Small-Cap Growth Index began on May 31, 2007, and the line graph for the Index begins at the same value as the Fund on that date.

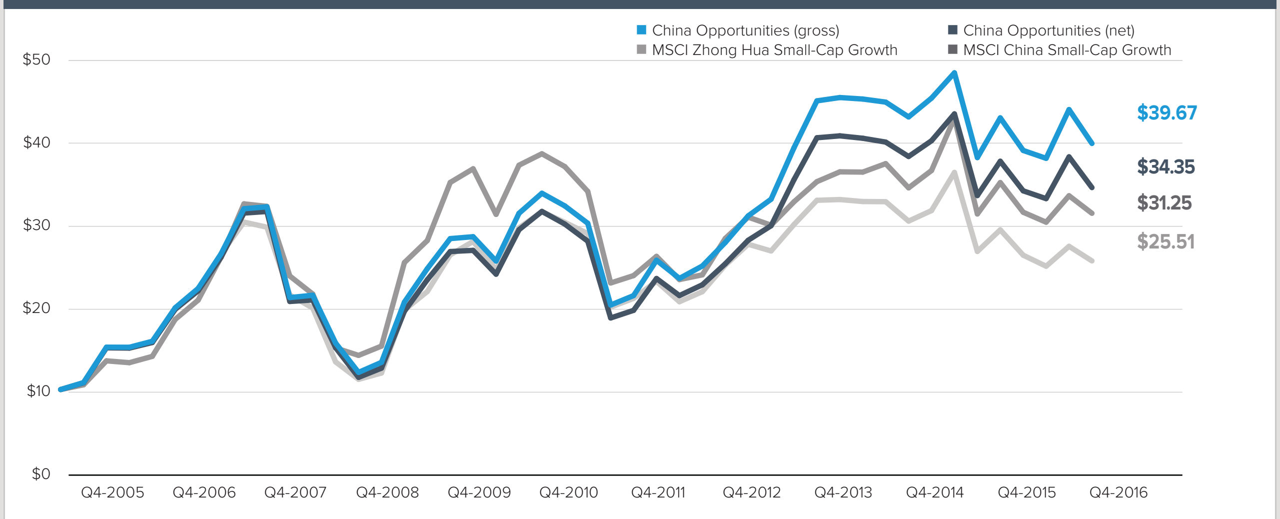
The MSCI China Small Cap Growth Index is a free float adjusted market capitalization index that is designed to measure the small cap growth equity market performance in China excluding A share classes, with minimum dividends reinvested net of withholding tax.

Advisory fees are disclosed in Part II of Form ADV. Performance is historical and includes the reinvestment of dividends and other income. Past performance is not necessarily indicative of future results.

**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 Oberweis Funds invest in rapidly growing smaller and medium sized companies which may offer greater return potential. However, these investments often involve greater risks and volatility. There is no guarantee that the portfolios can achieve their objectives. The Oberweis Funds are distributed by Oberweis Securities, Inc. Member: FINRA & SIPC.*

Oberweis Asset Management (Asia) Limited ("OAMA"), is a company organized under the laws of Hong Kong. OAMA has entered into a services agreement with OAM to provide research services to OAM.

GROWTH OF $10,000 — WITH INCOME INVESTED ***(October 1, 2005– December 31, 2016)***



The Oberweis Aperture

Our unique, highly disciplined investment approach includes a series of eight criteria to focus our research efforts.

READ MORE

Oberweis Asset Management, Inc.

Recognized as a leading small-cap stock specialist, Oberweis has been helping institutional investors manage their assets prudently and effectively for many years.

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