Oberweis
Asset Management

CHINA OPPORTUNITIES STRATEGY 2Q 2017

The Quarter in Review

For the quarter ending June 30, 2017, the Oberweis China Opportunities Composite returned 9.58% (9.33% net of fees) while its benchmark, the MSCI Zhong Hua Small Cap Growth Index, returned -1.61%, an outperformance of 11.19% (10.94% net of fees). Year-to-date, the Oberweis China Opportunities Composite returned 25.85% (25.23% net of fees) while the MSCI Zhong Hua Small Cap Growth returned 4.37%, an outperformance of 21.48% (20.86% net of fees).

During the quarter, the momentum in Chinese equity markets continued, driven by solid macroeconomic data, strong corporate earnings growth, and continuous fund flows into Hong Kong-listed Chinese equities from mainland investors. While outside events like North Korea's missile test and Moody's downgrade of China's sovereign debt have increased market volatility, they did little to stifle the strength of Chinese equity markets in the quarter.

At the macro level, all major economic indicators continued to show the strength seen in the first quarter. Revenue at industrial enterprises increased by 13.5% while profits grew 23% in the first five months of 2017. Retail sales showed resilience, growing 9.5%, driven mainly by increasing online sales penetration. China's manufacturing and non-manufacturing PMIs remained above 50, reading 51.7 and 54.9, respectively, in June. Infrastructure investment, up nearly 21% through May, continues to be an important driver of economic growth. At the corporate level, earnings have been favorable thus far and market participants have started to revise up their 2017 earnings forecasts; Deutsche Bank, for example, increased its 2017 estimate for MSCI China EPS growth by 800bps to 15% in April.

Another important driver of Chinese equities' outperformance in the quarter was the strong fund inflows into Hong Kong-listed Chinese companies from mainland investors. As we discussed in our commentary last quarter, mainland Chinese investors play an increasingly important role in the Hong Kong equity market after the launch of the Hong Kong-Shenzhen Connect last December. According to Goldman Sachs estimates, the average daily run rate of southbound fund flows from mainland Chinese investors increased by 45% as of June, with total inflows reaching USD $18 billion, accounting for about 10% of the Hong Kong equity market's turnover. We expect this will continue over the rest of the year given that valuations for Hong Kong-listed companies are more attractive than those listed in Shanghai and Shenzhen. For example, share price of a company listed in Shanghai or Shenzhen is still 27% higher than the share price of the same company listed in Hong Kong. China A-share's inclusion in the MSCI Index also improves sentiment toward Chinese equity markets. On June 21, MSCI announced it will add China A-shares to its benchmarks with an initial inclusion factor of 5%. We believe this will attract more funds to Chinese equity markets -- about USD $230 billion over the next five years, according to Goldman Sachs – and help Chinese regulators deepen reforms in the financial sector.

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Outlook

Although equity market performance and macroeconomic data were strong in the first half of 2017, our outlook is still somewhat mixed. First, private sector investment was still weak through May at around 6.9% growth, below nominal GDP growth. Second, the Chinese government has started a deleverage process in the financial sector to control overall financial leverage and limit the probability of an asset bubble, which has pushed interest rates up. This will increase corporate interest expense and should, in turn, pressure equity market valuations. Third, Chinese equity valuations are slightly above average, with the MSCI China forward 12 month PE at 12.9x, about 0.3 standard deviations above the historical average.

Despite these challenges, we don't see as many concerns with respect to our specific strategy. We focus on misunderstood companies undergoing positive fundamental changes. We invest in those that we believe can earn more than what market currently expects. It's rare that GDP is the primary determining factor in the success of most of our holdings. Instead, we look for niche oriented companies whose success is more predicted on product success, market consolidation, regulatory changes, and the evolution of new markets in China. In the quarter, we found new ideas in the healthcare, consumer discretionary and industrial sectors. Generally, these companies are leading players in niche markets that are less sensitive to GDP growth volatility and are beneficiaries of the ongoing structural economic and social changes in China.

Portfolio Highlights

During the quarter, the portfolio was 96.0% invested in 64 companies. The biggest contributor to the portfolio's relative outperformance versus its benchmark was favorable stock selection in 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

For more information please contact:
Brian K. Lee, Director of Marketing & Client Service
Oberweis Asset Management, Inc.
3333 Warrenville Rd., Suite 500, Lisle, IL 60532
(800) 323-6166 | (630) 577-2321 | brian.lee@oberweis.net

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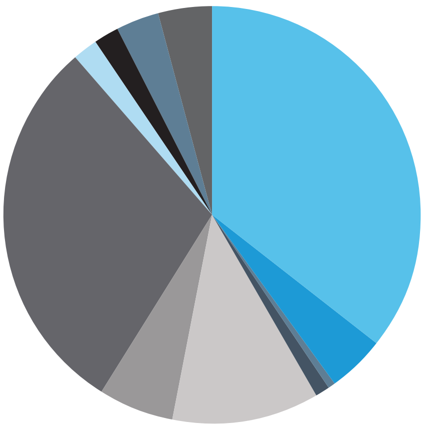
TOP TEN HOLDINGS *(as of June 30, 2017)*

	Company		Line of Business
1	Tencent Holdings Ltd.	6.2%	Leading internet services provider in China
2	Alibaba Group Holding Ltd.	4.6%	China's largest e-commerce provider
3	Geely Automobile Holdings	3.3%	Automobile manufacturer that develops and sells passenger vehicles
4	New Oriental Education	3.3%	Provides private educational services in China
5	TAL Education Group	3.2%	After-school tutoring provider for K-12 in China
6	Ctrip.com International Ltd.	2.9%	Travel service provider in China
7	CSPC Pharmaceutical Group Ltd.	2.5%	Leading Chinese pharmaceutical company focusing on innovative drugs
8	Gree Electric Appliances, Inc.	2.3%	Manufactures and sells household appliances
9	Midea Group	2.1%	Manufactures and distributes household electronics
10	Shenzhou International Group	2.1%	Largest vertically integrated manufacturer of knitwear & exporter 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 June 30, 2017)*

Consumer Discretionary	35.7%
Consumer Staples	4.4%
Energy	0.7%
Financials	1.0%
Health Care	11.3%
Industrials	5.9%
Information Technology	29.8%
Materials	1.8%
Real Estate	2.1%
Telecomm Service	0.0%
Utilities	3.3%
Cash	4.0%
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 June 30, 2017)*	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 10/1/2005
China Opportunities (gross of fees)	**9.58%**	**25.85%**	**31.77%**	**3.50%**	**16.36%**	**6.59%**	**14.66%**
China Opportunities (net of fees)	**9.33%**	**25.23%**	**30.27%**	**2.19%**	**15.06%**	**5.18%**	**13.22%**
MSCI Zhong-Hua Small-Cap Growth Index	-1.61%	4.37%	7.08%	-6.59%	5.28%	0.10%	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.

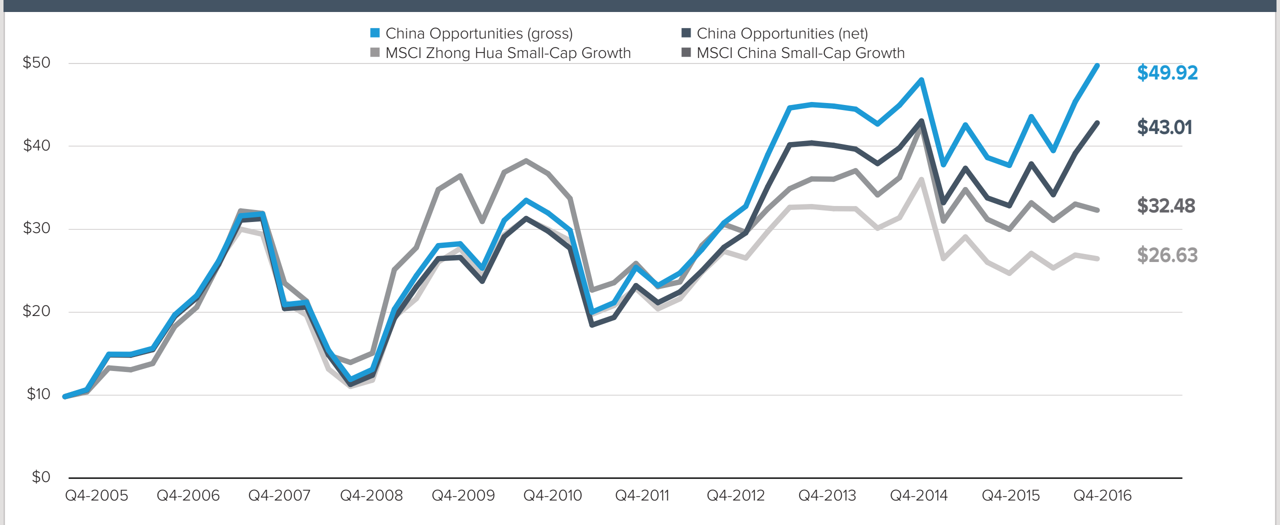
The MSCI China Small Cap Growth Index is a free float adjusted market capitalization index that is designed to measure the small cap growth equity market performance in China excluding A share classes, with minimum dividends reinvested net of withholding tax.

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– June 30, 2017)***



The Oberweis Aperture

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

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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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