Oberweis
Asset Management

CHINA OPPORTUNITIES STRATEGY

3Q 2017

The Quarter in Review

For the quarter ending September 30, 2017, the Oberweis China Opportunities Composite returned 18.25% (18.08% net of fees) while its benchmark, the MSCI Zhong Hua Small Cap Growth Index, returned 6.31%, an outperformance of 11.94% (11.77% net of fees). Year-to-date, the Oberweis China Opportunities Composite returned 48.81% (47.87% net of fees) while the MSCI Zhong Hua Small Cap Growth returned 10.96%, an outperformance of 3785 basis points (3691 basis points net of fees).

During the quarter, the three main factors that drove Chinese equity markets in the first two quarters - solid macroeconomic data, strong corporate earnings growth, and fund flows into Hong Kong-listed Chinese equities from mainland investors – continue to maintain solid momentum. While outside events like North Korea's hydrogen bomb test and the Fed's decision to shrink its balance sheet 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 half. Revenue at industrial enterprises increased by 12.7% while profits grew 21.6% in the first eight months of 2017. Retail sales showed resilience, growing 10.4%, driven mainly by increasing online sales penetration. China's manufacturing and non-manufacturing PMIs was 52.4 and 55.4, respectively, in September. Non-manufacturing PMI reached its highest level since May 2012. Infrastructure investment, up nearly 20% through August, continues to be an important driver of economic growth. More impressively, all these were achieved in the process of financial deleverage and stringent environmental protection. Money Supply (as defined as M2) growth reached a historic low in August, at 8.9%.

At the corporate level, earnings growth momentum has been favorable thus far. According to Goldman Sachs, aggregate net profits for all listed Chinese companies grew by 22% year-on-year in the first half of 2017, the highest since 2010. While "New China" continued to deliver over 30% net profit growth, "Old China" sectors has recovered meaningfully in the first half, generating 18% of revenue growth and 21% of earnings growth, the strongest since 2011. Market participants have started to revise up their 2017/18 earnings forecasts; Goldman Sachs, for example, increased its 2017/18 estimate for MSCI China EPS growth to 20/17% in September from 8/8% in Jan.

Fund inflows into Hong Kong-listed Chinese companies from mainland investors continued to be strong in the quarter. As we discussed in our commentaries last few quarters, 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 accumulative southbound fund flows from mainland Chinese investors reached USD78 billion in October, with southbound trading contributing around 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 25.5% higher than the share price of the same company listed in Hong Kong.

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Outlook

Although equity market performance and macroeconomic data were strong in the first three quarters of 2017, there are several key risks we need pay attention to in coming quarters. First, private sector investment was still weak through August at around 6.4% growth, below nominal GDP growth. Second, the Federal Reserve will start to shrink its balance sheet in October. The spill-over effects to Asia from higher yields, tighter financial conditions and potentially weaker fund flows could trigger a possible de-rating. Third, the 19th Party Congress will start on October 18th. Monetary and fiscal policy have been accommodative leading up to the congress, and this 'policy put option' is one of the reasons market has held a positive investment stance on China equities. Historically, policy may turn more restrictive post the congress and catalyze a market downturn. Fourth, Chinese equity valuations are slightly above average, with the MSCI China forward 12 month PE at 13.4x, about 0.4 standard deviations above the historical average (compared with about 0.3 last quarter).

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 materials, 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

As of September 30, 2017, the portfolio was 99.6% invested in 66 companies. The biggest contributor to the portfolio's relative outperformance versus its benchmark was favorable stock selection in information technology and consumer discretionary. On the contrary, our biggest performance detractors were the materials and consumer staples sectors.

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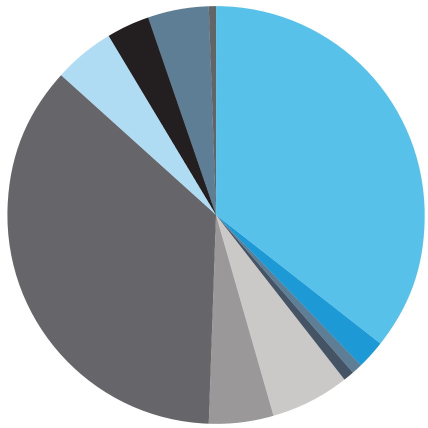
TOP TEN HOLDINGS *(as of September 30, 2017)*

	Company		Line of Business
1	Tencent Holdings Ltd.	6.5%	Leading internet services provider in China
2	Alibaba Group Holding Ltd.	4.9%	China's largest e-commerce provider
3	TAL Education Group	4.0%	After-school tutoring provider for K-12 in China
4	Geely Automobile Holdings	3.5%	Automobile manufacturer that develops and sells passenger vehicles
5	New Oriental Education	3.4%	Provides private educational services in China
6	Sunny Optical Technology	2.8%	Designs, research & development, manufactures and sells opitcal and opticcal related products
7	China Lodging Group	2.5%	Multi-brand hotel group in China
8	CSPC Pharmaceutical Group Ltd.	2.2%	Leading Chinese pharmaceutical company focusing on innovative drugs
9	China Yongda Automobiles	2.1%	One of the largest luxury auto dealerships in China
10	Gree Electric Appliances, Inc.	1.9%	Manufactures and sells household appliances

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 September 30, 2017)*

Consumer Discretionary	35.8%
Consumer Staples	2.0%
Energy	1.0%
Financials	0.9%
Health Care	6.0%
Industrials	4.9%
Information Technology	36.2%
Materials	4.7%
Real Estate	3.4%
Telecomm Service	0.0%
Utilities	4.7%
Cash	0.4%
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 September 30, 2017)***

	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 10/1/2005
China Opportunities (gross of fees)	**18.25%**	**48.81%**	**34.89%**	**9.74%**	**18.84%**	**6.38%**	**15.95%**
China Opportunities (net of fees)	**18.08%**	**47.87%**	**33.46%**	**8.43%**	**17.54%**	**4.97%**	**14.50%**
MSCI Zhong-Hua Small-Cap Growth Index	6.31%	10.96%	3.81%	-4.64%	5.37%	-0.64%	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.

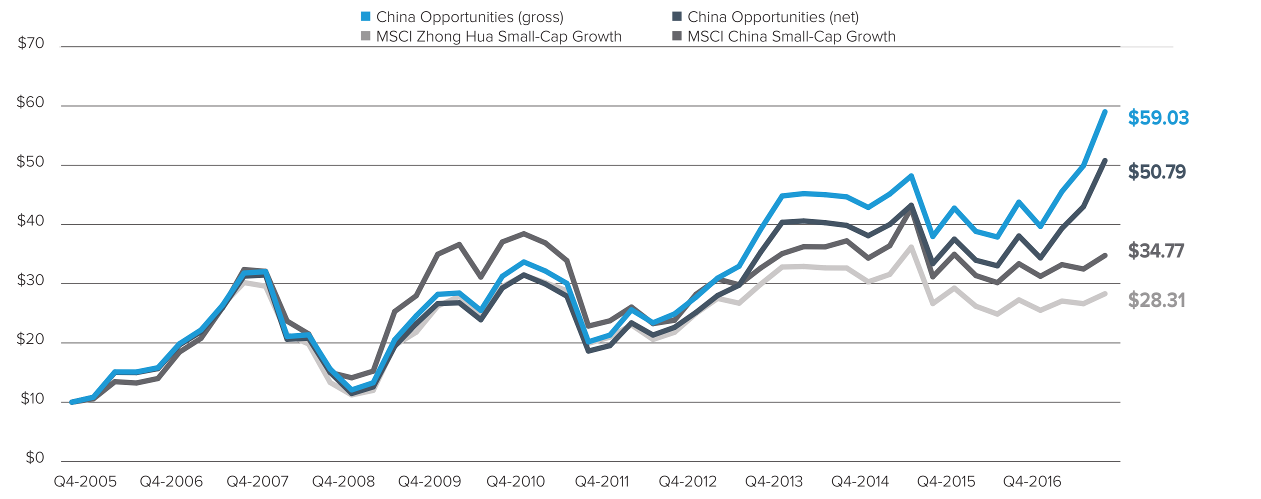
The MSCI China Small Cap Growth Index is a free float adjusted market capitalization index that is designed to measure the small cap growth equity market performance in China excluding A share classes, with minimum dividends reinvested net of withholding tax.

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.*

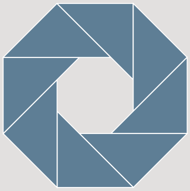
Oberweis Asset Management (Asia) Limited ("OAMA"), is a company organized under the laws of Hong Kong. OAMA has entered into a services agreement with OAM to provide research services to OAM.

GROWTH OF $10,000 — WITH INCOME INVESTED ***(October 1, 2005– September 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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