Oberweis
Asset Management

CHINA OPPORTUNITIES STRATEGY 4Q 2017

The Quarter and Year in Review

For the quarter ending December 31, 2017, Oberweis China Opportunities Composite returned 5.48% (5.30% net of fees) while its benchmark, the MSCI Zhong Hua Small Cap Growth Index, returned 2.96%, an outperformance of 252 basis points (234 basis points net of fees). For the full year, Oberweis China Opportunities Composite returned 56.96% (55.71% basis points net of fees) and MSCI Zhong Hua Small Cap Growth returned 14.25%, an outperformance of 4271 basis points (4,146 basis points net of fees). Our strategy also outperformed the MSCI China Index, which returned 54.07% and is 31% comprised of Tencent Holdings Ltd and Alibaba Group Holding Ltd. Accurately benchmarking our China strategy is challenging, as the strategy tends to have an average weighted market-cap somewhat larger than that of the MSCI Zhong Hua Small-Cap Growth but much smaller than that of the MSCI China Index (which has an average weighted market cap of approximately USD$225 billion and a large holding concentration issue).

During the quarter, Chinese equity markets marched higher despite increased volatility. Concerns of potentially slower Chinese economic growth in 2018 and tighter regulation of the financial industry triggered a sell-off of companies in higher-beta sectors like technology and consumer discretionary in the second half of the quarter. Nonetheless, gains in healthcare more than offset tech's minor correction. Overall, equity markets in China continued to benefit from solid macroeconomic data, strong corporate earnings growth, and fund flows into Hong Kong-listed Chinese equities from mainland investors -- the same three main factors that drove Chinese equity markets in the first half of the year.

Economic activity in China continued to show strength in the fourth quarter. Although a few one-off factors dampened economic growth in October, both investment and consumption recovered meaningfully in November and December. Revenue at industrial enterprises increased by 11.4% while profits grew 21.9% in the first eleven months of 2017. Retail sales showed resilience, growing 10.3%, driven mainly by increasing online sales penetration. China's manufacturing and non-manufacturing PMIs were 51.6 and 55.0, respectively, in December. Infrastructure investment, up nearly 20% through November, continues to be an important driver of economic growth. More importantly, all of this was achieved amid financial deleveraging and implementation of far more stringent environmental protection rules. M2 growth reached a historical low in October, at 8.8%. At the same time, the corporate financial situation improved considerably and onshore bond defaults in China decreased significantly in 2017. According to Goldman Sachs estimates, there were seven cases of onshore bond defaults with an aggregate amount of RMB17.5bn in 2017, compared with 18 cases with an aggregate amount of 53.9bn in 2016. Thanks to the strong execution of financial deleveraging, the pace of debt buildup will moderate significantly in next few years and China's debt to GDP ratio is on track stop increasing in 2019, according to a research by Morgan Stanley.

Corporate earnings and fund flows also supported the strong performance of Chinese equity markets in the quarter. We saw earnings growth acceleration, from 9% in the second quarter to 14% in the third quarter of 2017, driven mainly by non-financial sectors. In view of this, consensus earnings growth expectations for the MSCI China index in 2018 increased to 16% from 10% at the beginning of 2017. Fund flows followed fundamentals in the year. Net southbound inflows, which refers to fund flows from mainland Chinese investors to Hong Kong equity markets, were HKD340bn in 2017, compared with 246bn in 2016. Southbound trading increased to about 12% of Hong Kong Exchange turnover in 2017 compared with less than 8% in 2016. Southbound flows have been an increasingly important source of market liquidity in Hong Kong and will continue to be an important source of fund inflows in the future as China encourages insurance companies to invest in Hong Kong-listed Chinese companies.

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Outlook

Looking into 2018, we are still positive on China's overall economic growth and Chinese companies' earnings potential. Despite weak economic data in October, we have seen that both investment and consumption demand recovered meaningfully in November and December. China's real GDP growth is expected to be stable at around 6-7% in 2018, but the quality of growth will continue to improve, as it is driven mainly by domestic consumption and less dependent on debt buildup. Although Chinese equities performed strongly in 2017, it was mainly driven by corporate earnings growth rather than valuation multiple expansion. According to a research by China International Capital Corporation, earnings growth contributed over 90% of Hang Sang China Enterprise Index's 25% return in 2017. Valuations of Chinese equities are still at a reasonable level even after a strong year in 2017. For example, MSCI China Index traded at around 13.3x forward 12-month price-to-earnings ratio at the end of 2017 after returning 54% in the year, compared with 11.5x at the beginning of the year.

For our strategy, we continue to 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 predicated 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 96.85% invested in 66 companies. The biggest contributors to the portfolio's relative outperformance versus its benchmark were consumer discretionary and information technology, primarily attributable to strong stock selection.;

On the contrary, our biggest performance distractors were materials and utilities 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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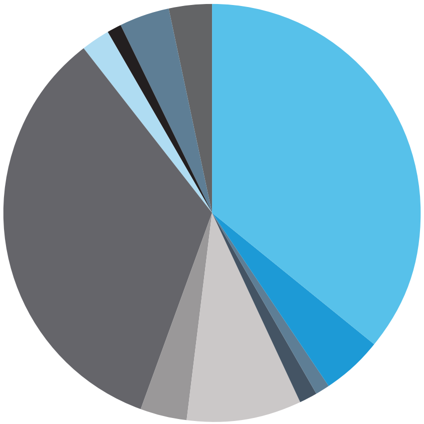
TOP TEN HOLDINGS *(as of December 31, 2017)*

	Company		Line of Business
1	Tencent Holdings Ltd.	7.7%	Leading internet services provider in China
2	Alibaba Group Holding Ltd.	4.8%	China's largest e-commerce provider
3	Geely Automobile Holdings	4.3%	Automobile manufacturer that develops and sells passenger vehicles
4	China Lodging Group	3.0%	Multi-brand hotel group in China
5	TAL Education Group	2.7%	After-school tutoring provider for K-12 in China
6	New Oriental Education	2.5%	Provides private educational services in China
7	CSPC Pharmaceutical Group Ltd.	2.3%	Leading Chinese pharmaceutical company focusing on innovative drugs
8	Gree Electric Appliances Inc.	2.2%	Manufactures and sells household appliances
9	Sunny Optical Technology	2.2%	Designs, research & development, manufactures, and sells optical and optical related products
10	Kweichow Moutai Co.	2.2%	Leading global provider of liquor based 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, 2017)*

Consumer Discretionary	36.0%
Consumer Staples	4.8%
Energy	0.9%
Financials	1.4%
Health Care	9.0%
Industrials	3.7%
Information Technology	33.8%
Materials	2.2%
Real Estate	1.0%
Telecomm Service	0.0%
Utilities	3.9%
Cash	3.3%
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, 2017)*

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 10/1/2005
China Opportunities (gross of fees)	**5.48%**	**56.96%**	**13.25%**	**17.56%**	**6.87%**	**16.10%**
China Opportunities (net of fees)	**5.30%**	**55.71%**	**11.96%**	**16.27%**	**5.45%**	**14.67%**
MSCI Zhong-Hua Small-Cap Growth Index	2.96%	14.25%	-1.29%	3.13%	-0.14%	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.

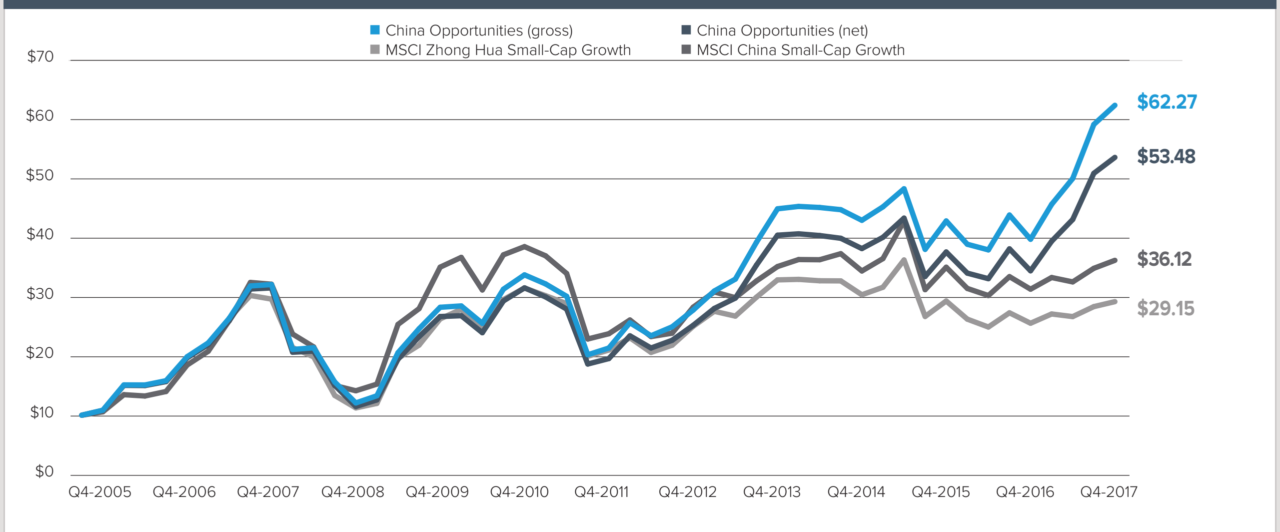
The MSCI China Small Cap Growth Index is a free float adjusted market capitalization index that is designed to measure the small cap growth equity market performance in China excluding A share classes, with minimum dividends reinvested net of withholding tax.

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, 2017)*



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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