

CHINA OPPORTUNITIES STRATEGY

1Q 2018

The Quarter in Review

For the quarter ending March 31, 2018, Oberweis China Opportunities Composite returned 3.71% (3.39% net of fees) while its benchmark, the MSCI Zhong Hua Small Cap Growth Index, returned 2.16%, an outperformance of 155 bps (123 bps net of fees). Our strategy also outperformed the MSCI China Index, which returned 1.82%.

During the quarter, Chinese equity markets were on a roller coaster: the MSCI China index closed at 10-year high on January 31 on strong economic data of the fourth quarter of 2017 and market's optimistic outlook for 2018, and then declined by more than 10% in the next two months triggered by external factors like the North Korea nuclear crisis and US-China trade tensions. Despite external political and economic challenges, concerns of potentially slower Chinese economic growth in 2018 were alleviated after China reported strong economic data for the fourth quarter of 2017 and outlined solid economic and social targets for 2018 at its annual congress meeting in March. The three key factors that drove Chinese equity markets in the past two years – macroeconomic stabilization, strong corporate earnings growth, and fund flows into Hong Kong-listed Chinese equities from mainland investors – continue to maintain solid momentum in the quarter.

Economic activity in China continued to show strength in the first quarter. Revenue at industrial enterprises increased by 10% while profits grew 16.1% in the first two months of 2018. Retail sales showed resilience, growing 9.7%, driven mainly by increasing online sales penetration. China's manufacturing and non-manufacturing PMIs were 51.5 and 54.6, respectively, in March. Infrastructure investment, up nearly 16% through February, 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 continues to keep at low level, at 8-9%, in the quarter. According to a Goldman Sachs research, China's credit growth was only about 11.5% in 2017, slightly higher than nominal GDP growth, which means that its debt-to-GDP ratio was almost flat in 2017 compared with 2016.

Corporate earnings and fund flows were also in good shape in the quarter. We saw earnings growth acceleration, from 14% in the third quarter to 19% in the fourth 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 23% from 10% at the beginning of 2017. Daily net southbound inflows, which refers to fund flows from mainland Chinese investors to Hong Kong equity markets, were HKD2.1bn in the first quarter, compared with 13.5bn in 2017. On the other side, net northbound inflows, which refers to the fund flows from foreign investors to China's domestic equity markets, also started to pick up since the MSCI A-share inclusion announcement in June 2017. Net northbound buying increased to USD30bn in 2017 from 9bn in 2016. It is expected to the official inclusion of A-share in MSCI index will bring about USD40/60bn incremental inflows into A-share market in 2018/19.

Outlook

Our outlook for 2018 is mixed. We are still positive on China's overall economic growth and Chinese companies' earnings potential. But the external environment for China is not as favorable as last year, especially after the rising trade tensions between the US and China. Thanks to the global economic recovery, China has achieved solid economic growth in 2017 even with slower credit growth. If the US and China fail to avoid an escalation of the tensions, it may trigger a slowdown of the Chinese economy especially against the background of financial deleveraging. Valuations of Chinese equities are also not as attractive as last year. MSCI China traded at 0.5 standard deviations above its 10-year historical average in March.

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 98.7% invested in 66 companies. The biggest contributors to the portfolio's relative outperformance versus its benchmark were information technology and health care, primarily attributable to strong stock selection.

On the contrary, our biggest performance detractors were consumer discretionary and financial 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:

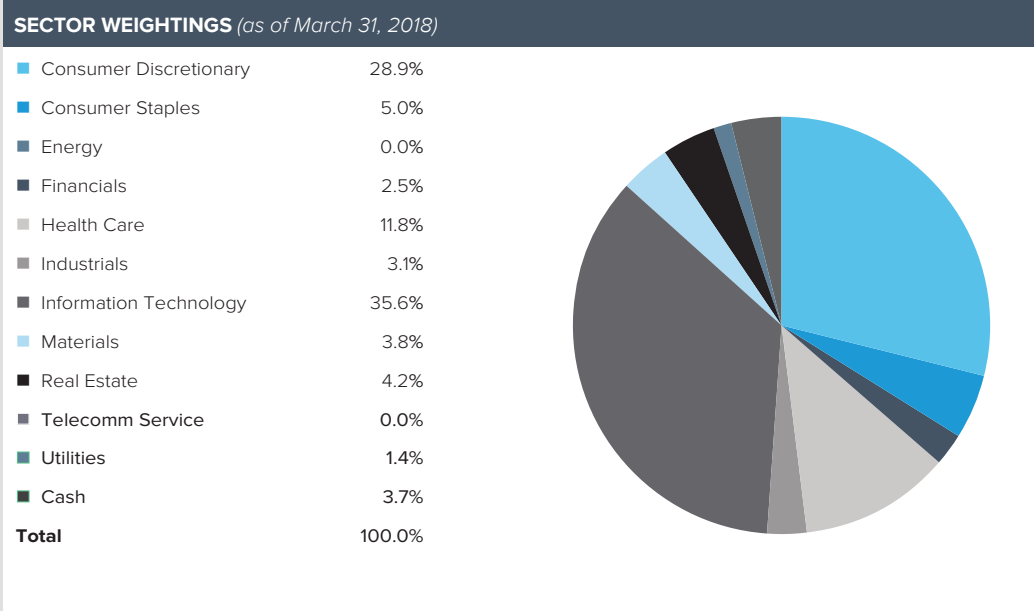
- Participate in China's transformation from an emerging market to an economic power
- Benefit from the anticipated above-average growth of China's GDP over the next decade
- Take advantage of the powerful impact that China's emerging consumer class will have on the global demand for goods and services, 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 March 31, 2018)		
Company		Line of Business
1 Tencent Holdings Ltd.	7.9%	Leading internet services provider in China
2 Alibaba Group Holding Ltd.	5.4%	China's largest e-commerce provider
3 CSPC Charmaceutical Group Ltd.	3.2%	Leading Chinese pharmaceutical company focusing on innovative drugs
4 Geely Automobile Holdings	2.7%	Automobile manufacturer that develops and sells passenger vehicles
5 Gree Electric Appliances Inc.	2.6%	Manufactures and sells household appliances
6 Shenzhou International Group	2.5%	Manufactures and processes textiles in China
7 Kweichow Moutai Co.	2.3%	Leading global provider of liquor based in China
8 Hangzhou Hikvision Digital	2.1%	Develops, manufactures and sells video surveillance products
9 Sunny Optical Technology	2.1%	Designs, research & development, manufactures, and sells optical and optical related products
10 United Laboratories	2.1%	Produces and distributes pharmaceutical products including finished products, APIs, intermediates, and capsules

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 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.

AVERAGE ANNUAL TOTAL RETURNS (as of March 31, 2018)

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 10/1/2005
China Opportunities (gross of fees)	3.71%	41.73%	12.68%	15.85%	11.84%	16.09%
China Opportunities (net of fees)	3.39%	40.56%	11.40%	14.58%	10.37%	14.66%
MSCI Zhong-Hua Small-Cap Growth Index	2.16%	10.03%	-1.94%	1.59%	3.36%	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.

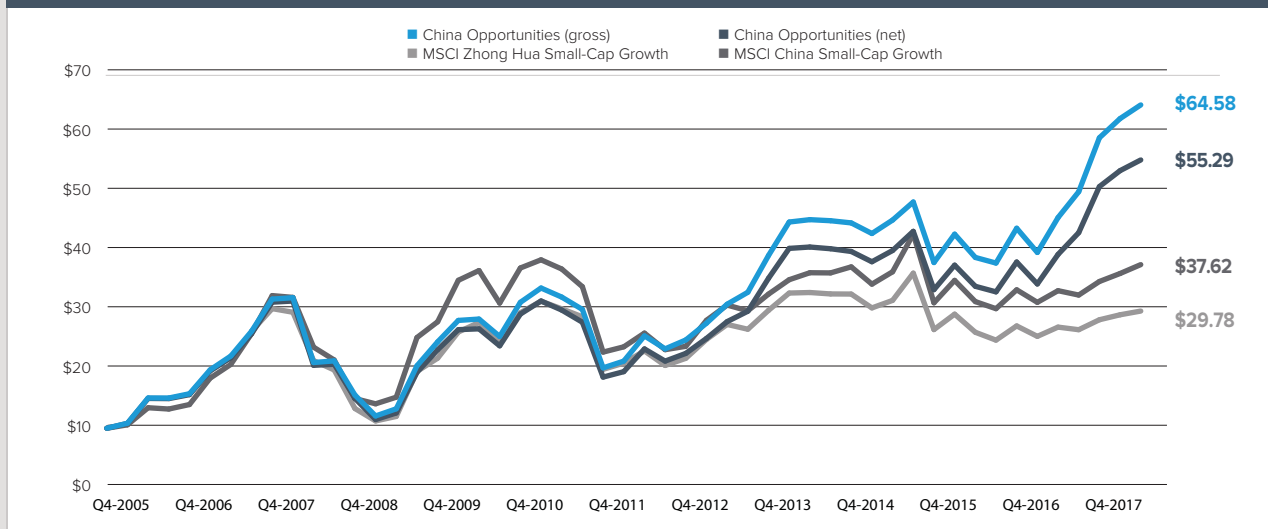
The MSCI China Small Cap Growth Index is a free float adjusted market capitalization index that is designed to measure the small cap growth equity market performance in China excluding A share classes, with minimum dividends reinvested net of withholding tax.

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– March 31, 2018)



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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