

# OBERWEIS CHINA OPPORTUNITIES FUND INVESTOR CLASS (OBCHX) INSTITUTIONAL CLASS (OCHIX)

1Q 2019

## AVERAGE ANNUAL TOTAL RETURNS (as of March 31, 2019)

	QTD	1 YR	3 YR	5 YR	10 YR	Since Inception 10/1/2005	Gross/Net Expense Ratio*
<b>Oberweis China Opportunities Fund Institutional Class (OCHIX)**</b>	<b>25.21%</b>	<b>-10.09%</b>	<b>13.26%</b>	<b>3.77%</b>	<b>14.28%</b>	<b>12.07%</b>	<b>1.65%/1.61%</b>
<b>Oberweis China Opportunities Fund Investor Class (OBCHX)</b>	<b>23.85%</b>	<b>-11.26%</b>	<b>12.63%</b>	<b>3.32%</b>	<b>13.89%</b>	<b>11.71%</b>	<b>1.91%/1.86%</b>
MSCI Zhong-Hua Small-Cap Growth Index	12.47%	-15.52%	-1.33%	-5.23%	7.70%	N/A	

\*As of December 31, 2018. Oberweis Asset Management, Inc. (OAM), the Fund's investment advisor is contractually obligated through April 30, 2020 to reduce its management fees or reimburse OBCHX to the extent that total ordinary operating expenses exceed in any one year 2.24% expressed as a percentage of the Fund's average daily net assets and for OCHIX 1.99%.

\*\*Institutional Class shares OCHIX performance information was calculated using the historical performance of Investor Class shares for periods prior to May 1, 2017.

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so that you may have gain or loss when shares are sold. Current performance may be higher or lower than quoted. Visit us online at [oberweisfunds.com](http://oberweisfunds.com) for most recent month-end performance. 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](http://oberweisfunds.com) or call 800-323-6166. Read it carefully before investing. The Oberweis Funds invest in rapidly growing smaller and medium-sized companies that may offer greater return potential. However, these investments often involve greater risks and volatility. Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations. There is no guarantee that the Funds can achieve their objectives.

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.

The Oberweis Funds are distributed by Oberweis Securities, Inc. Member: FINRA & SIPC.

## GROWTH OF \$10,000 — WITH INCOME INVESTED (October 1, 2005 – March 31, 2019)



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### The Quarter in Review

For the quarter ending March 31, 2019, the Oberweis China Opportunities Fund returned 23.85% while its benchmark, the MSCI China Index, returned 17.69%, an outperformance of 616 bps.

During the quarter, Chinese equity markets experienced a powerful rally. To understand the strong performance, we have to look back at the sell-off in the last quarter of 2018, which was driven by concerns of a Chinese economic slowdown, trade tensions between the US and China, rising interest rates in the United States and tighter financial conditions in China (as China was working through a process of planned deleveraging). By the end of 2018, valuations reflected very pessimistic expectations, which so far have turned out to be not so bad. Cheap valuations, stabilization of Chinese economic conditions, more accommodative Chinese monetary policy and a flip-flop by the US Federal Reserve set the stage for one of the best quarters in recent years.

Recognizing that tight monetary policy was one of the key reasons behind the economic slowdown in the second half of 2018, the Chinese government changed its tone from “deleveraging” to “stabilize leverage” and monetary policy also became more accommodative in the fourth quarter of 2018. This policy stance has continued in the first quarter. The People’s Bank of China (PBoC) announced a series of accommodative monetary policy actions to provide more liquidity to the economy beginning with the first business day of 2019. For example, the bank announced a 100bps required reserve rate (RRR) cut, which provided about RMB1.5trillion in liquidity to the economy. To help solve Chinese banks’ capital adequacy issue, which was a key constraint on bank’s ability to lend, the Chinese central bank announced a new policy tool called Central Bank Bill Swap (CBS) to provide liquidity to perpetual bank bonds. Perpetual bonds are an important channel for Chinese banks to replenish capital but their liquidity was poor prior to CBS. As a result, it was not easy for Chinese banks to issue perpetual bonds in the domestic capital market. CBS solved the liquidity problem and we have seen that several large banks successfully issued perpetual bonds since then. The purpose of these new policies are clear and straightforward: to provide enough liquidity to the real economy, especially to private and small medium sized enterprises.

On the fiscal policy side, the Chinese government also became more aggressive in the quarter. First, local government special bonds, which are used to finance infrastructure projects, were approved for issue at the beginning of the year. These special bonds are usually issued after the close of the annual Congress meeting in March. The earlier-than-expected special bond issuance has provided support to infrastructure investment at the beginning of the year, which was evidenced by the recovery of infrastructure fixed asset investment to 4.3% in the first two months of 2019 from 3.8% in 2018. Second, the Chinese government also announced a new round of RMB 2trillion tax cuts to support economic growth leading up to the annual Congress meeting in March. According to estimates by Morgan Stanley, this tax cut can contribute about 50-60bps to aggregate earnings growth of companies in MSCI China Index in 2019 if implemented by May. More importantly, lower tax rates provide better incentives to fuel the economic growth in the future (remember that China still has one of the highest effective tax rates in the world).

Thanks to supportive monetary and fiscal policy, the Chinese economy showed early signs of stabilization in the first quarter, according to the macroeconomic data in the first quarter released so far. Both National Bureau Statistics and Caixin manufacturing PMIs recovered strongly in March to above 50. Even excluding the impact of Chinese New Year, the recovery magnitude was stronger than normal seasonality, which may be attributable to strong monetary and fiscal policy support. More important, the structure of the recovery also started to improve as private and SMEs recovered more strongly compared with state-owned enterprises (SOEs).

We also witnessed progress on the US-China trade issues. Both parties finished several rounds of negotiations in the quarter. Although a final agreement has not been nailed down and there are still disagreements on several issues like currency and enforcement mechanisms, consensus has been reached on issues like narrowing the trade gap between the two countries and intellectual property protection. US-China trade tensions were a major concern of global investors in the last quarter of 2018. Any improvement could help lift investor sentiment, though we believe it will not be possible to solve all of the structural issues between the two countries in the near term. At the same time, some resolution appears to be priced into market and lack of progress could be unhelpful to equity returns.

For the Chinese A-share market, another positive event that drove investor sentiment in the quarter was announcement by MSCI that they had decided to increase the A-share inclusion factor to 20% from 5%, starting from May. Chinese A-shares have attracted more and more attention since the launch of Shanghai-Hong Kong Connect in 2014 and especially so after MSCI’s inclusion in 2017. Foreign investors now account for about 2.7% of the floating shares of A-shares and we saw inflow into A-shares accelerated in the first quarter. Net inflow was about RMB120bn in the quarter, compared with total inflow of 720bn since the launch of the Shanghai-Hong Kong Connect in November 2014.

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## OBERWEIS CHINA OPPORTUNITIES FUND INVESTOR CLASS (OBCHX) INSTITUTIONAL CLASS (OCHIX)

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### Outlook (continued)

Our outlook for 2019 is mixed after the strong quarter. Supportive policy, sentiment improvement driven by progress on trade issues, positive fund flows, and stabilization of the economy all drove the market higher in the quarter. After the strong rally, valuations of the Chinese equity markets are close to their 10-year historical average in terms of price-to-earnings ratios. However, on corporate earnings side, we still lack visibility on an earnings recovery in 2019. After a lackluster of 8.6% earnings growth in 2018, which was below consensus of 10%, we see downside risks to the current 13% consensus estimate on 2019 earnings growth for companies in the MSCI China Index. Share performance is running ahead of fundamentals. Fundamentals need to catch up for the market to further rerate.

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 consumer staples. 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.

### Fund Highlights

During the quarter, the Fund was 89.1% invested in 60 companies. The biggest contributors to the Fund's relative outperformance versus its benchmark were consumer discretionary and consumer staples, primarily attributable to strong stock selection.

On the contrary, our biggest performance distractors were utilities and information technology sectors.

### Key Benefits

The Oberweis China Opportunities Fund 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 potential key benefits of the China Opportunities Fund 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

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. Investing in the regional markets of China involves risks and considerations not present when investing in more-established securities markets. Investing in regionally concentrated investment funds should be considered speculative and thus not appropriate for all investors. There is no guarantee that the portfolios can achieve their objectives.

Minimum Investment:

Oberweis China Opportunities Fund Investor Class (OBCHX):  
\$1,000 non-IRA, \$500 IRA

Oberweis China Opportunities Fund Institutional Class (OCHIX):  
\$1.0 million

### 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.

[MEET THE TEAM](#)

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1Q 2019

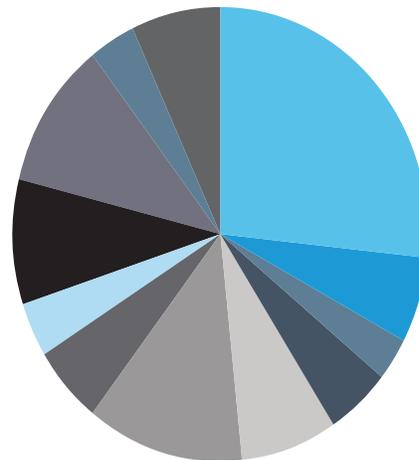
**TOP TEN HOLDINGS (as of December 31, 2018)**

Company		Line of Business
1 Alibaba Group Holding Ltd.	6.5%	China's largest e-commerce provider
2 Tencent Holdings Ltd.	5.1%	Leading internet services provider in China
3 Shenzhou International Group	3.8%	Manufactures and processes textiles in China
4 Shanghai International Airport	3.0%	Second largest airport in China based on passenger traffic
5 China Tower Corp.	2.8%	Provides telecommunication towers construction, maintenance, ancillary facilities management and other services in China
6 Kweichow Moutai Co.	2.6%	Leading global provider of liquor based in China
7 Chongqing Zhifei Biological Product	2.5%	Largest vaccine manufacturer and distributor in China
8 CSPC Pharma	2.4%	Leading Chinese pharmaceutical company focusing on innovative drugs
9 China Resources Power Holdings	2.4%	Power generation company that invests, develops, owns and operates coal-fired power plants in China
10 Kunlun Energy	2.4%	Leading energy company in China with support from parent company PetroChina

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 March 31, 2019)**

Consumer Discretionary	26.8%
Consumer Staples	6.1%
Energy	3.0%
Financials	5.0%
Health Care	7.7%
Industrials	12.1%
Information Technology	5.6%
Materials	3.7%
Real Estate	9.0%
Communication Services	10.6%
Utilities	3.6%
Cash	6.8%
<b>Total</b>	<b>100.0%</b>



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](http://www.msci.com).