

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

**2Q 2019**
**AVERAGE ANNUAL TOTAL RETURNS (as of June 30, 2019)**

	QTD	YTD	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>-2.73%</b>	<b>21.79%</b>	<b>-10.98%</b>	<b>13.34%</b>	<b>3.37%</b>	<b>9.10%</b>	<b>11.61%</b>	<b>1.65%/1.61%</b>
<b>Oberweis China Opportunities Fund Investor Class (OBCHX)</b>	<b>-1.90%</b>	<b>21.50%</b>	<b>-11.27%</b>	<b>13.05%</b>	<b>3.11%</b>	<b>8.83%</b>	<b>11.33%</b>	<b>1.91%/1.86%</b>
MSCI China	-4.02%	12.97%	-6.73%	14.34%	7.37%	6.16%	10.03%	
MSCI Zhong-Hua Small-Cap Growth Index	-5.74%	6.02%	-17.84%	-1.57%	-6.20%	1.93%	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.

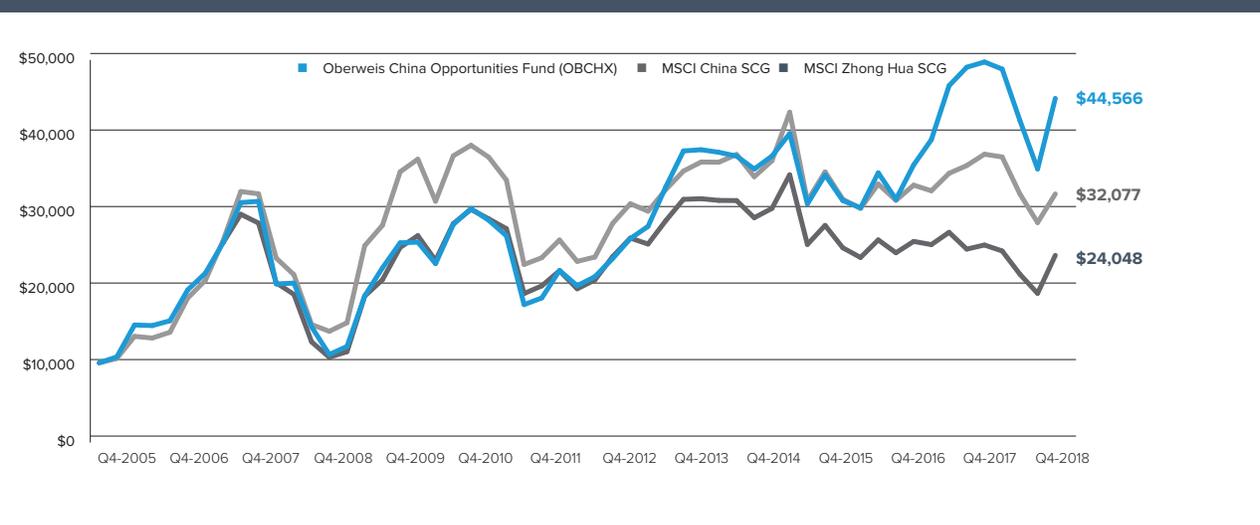
The MSCI China Net Index is a free float-adjusted market capitalization-weighted Index of Chinese equities that include China-affiliated corporations and H shares listed on the Hong Kong Exchange, and B shares listed on the Shanghai and Shenzhen exchanges and P chips and foreign listings with minimum dividends reinvested net of withholding tax.

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 MSCI China Net Index is replacing the MSCI China Small Cap Growth Index and the MSCI Zhong Hua Small Cap Growth Index. OAM believes the MSCI China Net Index is a more appropriate benchmark index given the China Opportunities Fund's investment strategy of investing in China and Hong Kong.

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

**GROWTH OF \$10,000 — WITH INCOME INVESTED (October 1, 2005 – June 30, 2019)**


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

2Q 2019

### The Quarter in Review

For the quarter ending June 30, 2019, the Oberweis China Opportunities Fund returned -1.90% compared to -4.02% for the MSCI China Index, an outperformance of 212 bps. Year-to-date, the Oberweis China Opportunities Fund returned 21.50% while the MSCI China Index returned 12.97%, an outperformance of 853 bps.

During the quarter, the US-China trade war still dominated Chinese equity markets. At the beginning of the quarter, Chinese equity markets continued the strong momentum of the first quarter, driven by the optimism for a trade deal between the US and China. But investors began to reprice those trade risks when President Trump announced on May 6th that the US and China could not reach a deal and the market started to tumble quickly. The trade war escalated to technology and national security when the US Commerce Department added Huawei onto its so-called "Entity List," prohibiting US companies from exporting key equipment and components to Huawei. Although investor risk-appetite momentarily improved after President Trump and President Xi agreed to avoid additional tariffs and to resume negotiations at the G20 Summit at the end of June, the fundamental issues between the countries could not be solved in months. It will continue to be a swing factor for global equity markets until a final deal is reached.

Central banks were another key variable for global equity market performance. Major global central banks, including the US Fed and European Central Bank, sent dovish signals that they are willing to "act as appropriate" to sustain economic expansion. These dovish signals were a clear positive for risk-oriented assets like emerging market equities. Many EM economies compete for the "carry trade," so lower US rates increases the attractiveness of assets denominated in Chinese RMB. Higher demand for RMB reduces pressure on Chinese currency depreciation and thus reduces the risk of capital flight. Mitigation of these risks gives Chinese policymakers the flexibility to focus on ongoing internal reforms. Additionally, lower US interest rates gives China some flexibility to introduce additional stimulus if the Chinese economy further deteriorates.

Equity markets in China underperformed most other countries in the second quarter. China's tight monetary policy and weak macro data put pressure on equity returns. Chinese policy makers tightened monetary policy in the quarter after its new total outstanding social financing<sup>1</sup> hit a historical record in Q1. Leverage in non-financial sectors increased by 5 percentage points in the quarter to 249%<sup>2</sup>. To curb the fast growth of financial leverage, Chinese policy makers changed their focus to "leverage stabilization" from "economic stabilization" in the April politburo meeting. Monetary policy has actually tightened since then, with the growth of new social financing decreasing to 2% in April and May, down from 40% in the first quarter. Most major macroeconomic indicators confirmed a double-dip in growth. National Bureau of Statistics manufacturing PMI was only 49.4 in June. PPI was very weak at 0.6% in May, which led to a 2.3% drop in industrial profits in the first five months of 2019. Constrained by financial deleveraging, infrastructure fixed assets investment grew only by 4%. Export growth was flat in the first five months, impacted by the US-China trade war and weak global demand. Manufacturer's capital expenditure growth decelerated significantly in past five months as uncertainties surrounding global economic outlook mounted.

The corporate earnings outlook was still dismal in the quarter, although earnings improved 11% in the first quarter of 2019 compared to -6.4% in the last quarter of 2018, mainly driven by insurance, diversified finance and information technology. We saw increasing pressure on corporate earnings as the global economic outlook dimmed and Chinese monetary policy tightened again in the quarter. Estimated earnings per share (EPS) for companies in the MSCI China Index experienced a 4.4% downward revision in the second quarter, following a 2.7% revision down in the first quarter.

In terms of fund flows, MSCI's decision to increase the inclusion factor of A-shares took effect in May, but this did not translate into incremental inflows in the quarter. On the contrary, China experienced a more than RMB 20bn outflow in the quarter, compared with 105bn in the first quarter. However, international demand for China's A-shares seems likely to improve as MSCI continues to increase its inclusion factor. Eventually, A-shares are expected to comprise about 15% of the MSCI EM Index, compared with 3.3% in 2019.

<sup>1</sup>Total social financing (TSF) refers to the aggregate volume of funds provided by China's domestic financial system to the private sector within a given time frame. TSF includes indirect finance via the banking system, as well as direct financing via stocks and bonds on the capital market. The Chinese government employs it as a liquidity measurement tool.

<sup>2</sup>The leverage is calculated as the ratio of "the total debt outstanding in non-financial corporations, household and government sectors" to GDP.

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**OBERWEIS CHINA OPPORTUNITIES FUND  
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**Outlook (continued)**

Although the US-China trade tensions and weak macroeconomic data will continue to weigh on the Chinese equity markets, investor expectations are already dismal and valuations seem reasonable. We are still optimistic about China's long-term economic transition and Chinese companies' earnings potential. Even against the background of financial deleveraging, China has managed to optimize its overall economic structure in the past few years; over time, we expect that China will become less vulnerable to external shocks and more reliant on domestic demand. After the strong rally in the first half of 2019, valuations are close to long term averages. The MSCI China Index is trading at a P/E ratio of 11.3x forward 12-month estimates, for 12% estimated earnings growth in 2019 and 2020.

As for our strategy, we continue to focus on misunderstood companies undergoing positive fundamental changes when we believe such changes have not been fully understood by the market yet. 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 consumer discretionary, healthcare and telecommunications. Generally, these companies are leading players in niche markets that whose growth is more predicated on product acceptance than on overall GDP growth. Many such ideas are beneficiaries of the ongoing structural economic and social changes occurring in China.

**Fund Highlights**

During the quarter, the Fund was 92% invested in 60 companies. The biggest performance contributors were consumer discretionary, communication services and consumer staples.

On the contrary, our biggest performance distractors were the information technology, industrial and healthcare.

**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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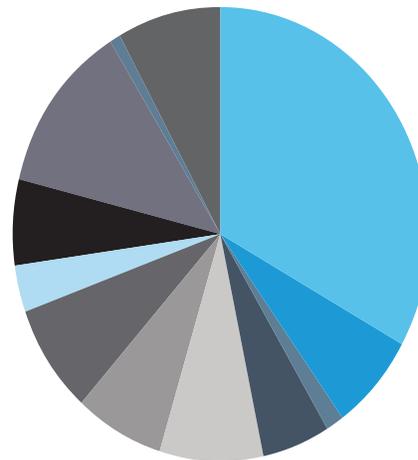
**TOP TEN HOLDINGS (as of March 31, 2019)**

Company		Line of Business
1 Alibaba Group Holding Ltd.	6.9%	China's largest e-commerce provider
2 Tencent Holdings Ltd.	4.6%	Leading internet services provider in China
3 Chongqig Zhifei Biological Product	2.7%	Largest vaccine manufacturer and distributor in China
4 Kweichow Moutai Co.	2.7%	Leading global provider of liquor based in China
5 China Jinmao	2.5%	Invests in and develops real estate projects in China
6 New Oriental Education	2.4%	Provides private educational services in China
7 ANTA Sports Products Ltd.	2.2%	Designs, develops, manufactures, and markets sportswear, including sports footwear and apparel
8 Shanghai International Airport	2.2%	Second largest airport in China based on passenger traffic
9 Momo, Inc.	2.1%	Operates as a mobile-based social networking platform in China
10 Shenzhou International Group	2.1%	Manufactures and processes textiles 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, 2019)**

Consumer Discretionary	33.3%
Consumer Staples	6.8%
Energy	1.4%
Financials	5.2%
Health Care	8.2%
Industrials	6.8%
Information Technology	7.9%
Materials	3.3%
Real Estate	6.0%
Communication Services	12.4%
Utilities	0.7%
Cash	8.0%
<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).