Oberweis Asset Management

CHINA OPPORTUNITIES STRATEGY

4Q 2020

The Quarter and Year in Review

We are pleased to report excellent results for the China Opportunities strategy in 2020. For the year, the strategy returned 58.46% (57.21% net of fees) versus 29.49% for the MSCI China Index, for excess return of 2897 basis points (2772 basis points net of fees). In the fourth quarter, the strategy returned 16.61% (16.49% net of fees) versus 11.20% for the benchmark, an outperformance of 541 basis points (529 basis points net of fees).

In the fourth quarter, Chinese data continued to show strength in economic recovery. Export growth was the bright spot among the major economic data points, reaching a 7-year high of 21.1% YoY in November, driven mainly by strong consumption during a socially-distant holiday season. Strong export growth also drove acceleration of manufacturing activity. Growth of industrial production rose to 7% in November. Manufacturing PMI held up well at 51.9 in December, despite unfavorable weather and power supply disruptions in some regions. Investment continues to be an important growth driver with FAI growth improving to 9.7%, driven mainly by growth in manufacturing investment, which surged to 12.5% in November vs. 3.7% in October. Domestic consumption continued the gradual recovery momentum. Growth in total retail sales reached 5% and offline retail sales turned positive for the first time in the year. As economic activity returned to normal in China, corporate earnings growth responded favorably. Non-financial firms reported 7.9% revenue growth and 34.5% earnings growth for the third quarter and consensus earnings estimates bottomed out in June.

With a stronger-than-expected economic recovery and roll-out of COVID-19 vaccines, Chinese policy makers are also considering a gradual phase out of the supportive monetary and fiscal policies launched to cushion the negative impact of the pandemic. China's central bank, People's Bank of China (PBoC), explicitly talked about its monetary policy exit plan in its 3Q Monetary Policy Report, suggesting gradual policy normalization and the importance of stable macroeconomic leverage. Growth of total social finance balance slowed to 13.6% in November. This is the first month of 2020 that we have seen the TSF balance moderate in terms of year-over-year growth, likely suggesting the peak of TSF growth and a more normal growth trend ahead. On the fiscal side, we have seen growth deceleration of infrastructure investment in past several months. As other sectors continue to recover, we expect that growth of infrastructure investment and other government sponsored projects will return back to normal.

Against the backdrop of rising US-China tensions, China is seeking to expand economic cooperation with other countries. China signed the Regional Comprehensive Economic Partnership (RCEP) in November, a trade pact between the ten ASEAN members along with Japan, South Korea, Australia and New Zealand. Countries participating in RCEP in total account for around one-third of the world's population, GDP, and trade. The agreement aims to eliminate tariffs on 91% of goods traded among members within 20 years and increased market access for member countries. The ASEAN block replaced the US and Europe as China's top trading partner this year. RCEP will clearly enhance regional integration in coming years. On December 30, the EU and China concluded negotiations of the EU-China Comprehensive Agreement on Investment (CAI). The deal represents an ambitious opening by China to European investments in manufacturing, automotive, financial services, health (private hospitals), telecom/cloud services, among other sectors. China also pledged to improve leveling the playing field. The Chinese government also indicates that China will "proactively consider joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)", which is the successor to the agreement that the US dropped out of in 2017. All these moves will have implications for US-China relationships and China's external environment in the years to come.

In the recent Politburo meeting and Central Economic Work Conference (CEWC) in December, Chinese policy makers explicitly announced several policy initiatives which are noteworthy for investors. First, Chinese economic growth will depend more on technology innovation and domestic consumption, rather than traditional manufacturing and export. Second, China will tie its development more closely with environmental protection. President Xi Jinping announced that China will reach "carbon neutrality" in 2060 at a UN Conference in September. Chinese policy makers confirmed the target in the Politburo meeting in December. Priority on carbon emission controls and environmental protection may put pressure on short-term economic growth but will transform the Chinese economy to a more sustainable model in the long run. Thirdly, China launched several eye-catching, anti-monopoly investigations into leading internet companies, including Alibaba, Meituan and JD, signaling a stronger regulatory approach going forward. China has lagged behind the US and Europe in terms of anti-monopoly legislation and enforcement. The regulatory risks for big Chinese internet companies will be elevated, but improved antitrust policies may be positive for innovation and productivity growth over time.

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Outlook

Looking into 2021, we expect economic growth will return to a more "normal" track and supportive monetary and fiscal policy will be tapered in China. As a result, economic growth will be normalized and financial liquidity will be incrementally tightened. Investment return will be driven more by fundamental improvement and earnings growth in 2021, compared with earnings multiple expansion in 2020. Implementation of new reform initiatives will also be a key metric to watch in the coming year, as it is the first year of the 14th Five Year Plan and the 100th anniversary of the Chinese Communist Party. We are optimistic about China's ongoing economic transition and Chinese companies' earnings potential. China's real GDP growth is expected to grow by around 8-9% in 2021. The MSCI China Index is trading at a P/E ratio of 15.5x forward 12-month estimates, with 21% estimated earnings growth in 2021 and 15% growth in 2022, compared with a 10-year historical average of 11.5x. Despite strong returns of equity markets in the past two years, global investors still remain underweight to China by over 400 basis points relative to the benchmark, the highest level of the past two decades. We believe that Chinese equities will prove their value in terms of absolute returns and risk diversification as its economic growth and US-China decoupling continues.

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, materials and industrial sectors. Generally, these companies are leading players in niche markets 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.

Portfolio Highlights

During the quarter, the portfolio was invested in 85 companies. At a sector level, the biggest performance contributors were consumer discretionary, information technology and industrials.

Our biggest performance-detracting sectors were energy, real estate and financials.

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. 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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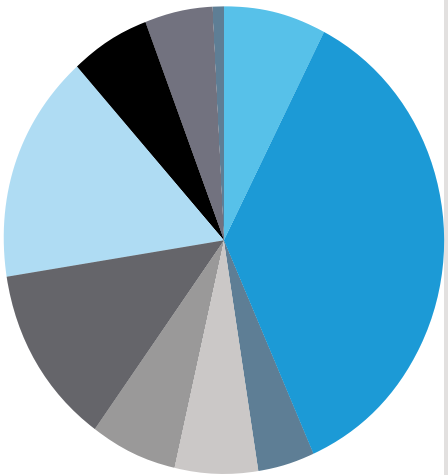
TOP TEN HOLDINGS *(as of December 31, 2020)*

	Company		Line of Business
1	Tencent Holdings, Ltd.	6.1%	Leading internet services provider in China
2	Alibaba Group Holding Ltd.	6.1%	China's largest e-commerce provider
3	Meituan Dianping	2.5%	Operates as a web based shipping platform for locally found consumer products and retail services
4	Li Ning	2.5%	Leading athletic show and sporting goods provider in China
5	21Vianet Group, Inc.	2.3%	Largest carrier-neutral internet and data center service provider in China
6	Contemporary Amperex Technology	2.1%	Global leader in lithium-ion battery development and manufacturing
7	JD.com, Inc.	2.1%	On-line direct sales company in China
8	GDS Holdings Ltd.	1.9%	Operates as a leading developer and operator of high performance data centers in China
9	Wuxi Biologics Cayman, Inc.	1.8%	Global company with leading open-access biologics technology platforms
10	Tal Education Group	1.8%	After-school tutoring provider for K-12 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, 2020)*

Communication Services	7.7%
Consumer Discretionary	35.7%
Consumer Staples	4.3%
Energy	0.0%
Financials	6.0%
Health Care	6.5%
Industrials	12.3%
Information Technology	15.9%
Materials	6.0%
Real Estate	5.0%
Utilities	0.6%
Cash	0.0%
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, 2020)*	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 10/1/2005
China Opportunities (gross of fees)	**16.61%**	**58.46%**	**18.43%**	**19.32%**	**11.87%**	**16.55%**
China Opportunities (net of fees)	**16.49%**	**57.21%**	**17.11%**	**18.01%**	**10.56%**	**15.14%**
MSCI China Index	11.20%	29.49%	9.05%	15.05%	7.61%	11.51%

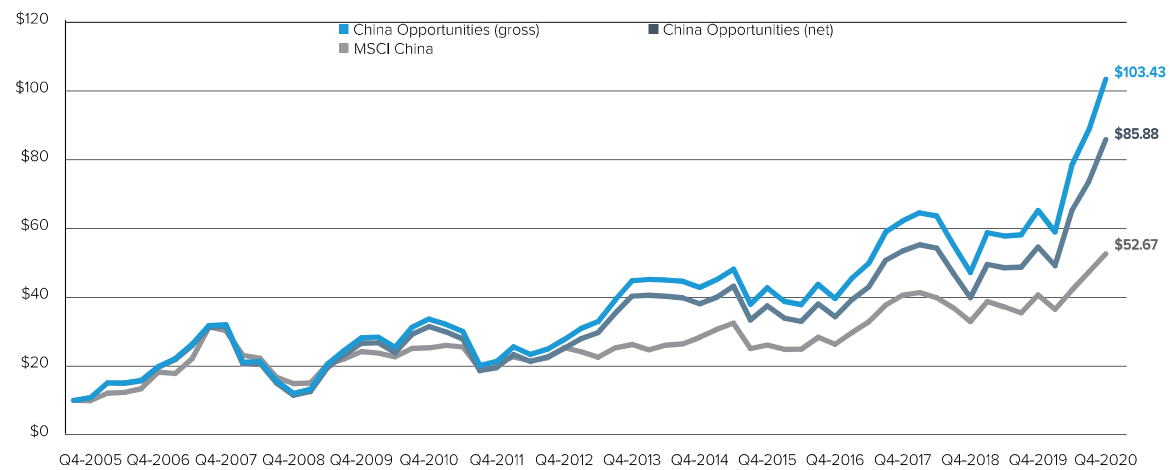
Oberweis Asset Management, Inc. ("OAM") is an independent investment management firm that is not affiliated with any parent organization. The composite returns are comprised of all fully discretionary accounts with a minimum value of $5 million. Performance results, from 10-1-05 until 10-1-06 as well 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 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.

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.

Oberweis Asset Management (Hong Kong) Limited ("OAMHK"), is a subsidiary of OAM and is organized under the laws of Hong Kong and licensed by the Hong Kong Securities and Futures Commission. OAMHK has entered into a sub-advisory agreement with OAM to provide research services and portfolio management with respect to OBCHX.

GROWTH OF $10 MILLION — WITH INCOME INVESTED ***(October 1, 2005– December 31, 2020)***



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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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