Oberweis
Asset Management

OBERWEIS CHINA OPPORTUNITIES FUND INSTITUTIONAL CLASS (OCHIX) MARKET COMMENTARY

2Q 2021

The Quarter in Review

For the quarter ending June 30, 2021, the Oberweis China Opportunities Fund gained 9.31% compared to a return of 2.27% for the MSCI China Index, an outperformance of 704 bps. Year-to-date, the Oberweis China Opportunities Fund returned 5.80% compared to 1.83% for the MSCI China Index, an outperformance of 397 bps.

Positive headline economic numbers drove performance of Chinese equity markets in the quarter. China's GDP grew 18.3% in the first quarter, driven mainly by export and industrial output. Export growth was exceptionally strong at 27.9% in May, but was actually elevated throughout the first half of the year. Driven by rebounding export growth, sales and total profits of industrials grew by 30.5% and 83.4%, respectively. The strong economic recovery also translated into impressive corporate earnings growth. Revenues at companies excluding financials grew, on average, by 41.3% year-over-year (yoy) in the first quarter, while net profit grew by 174% yoy. This exceptional year-over-year growth was partially due to a low base last year, but these numbers were impressive even absent the Covid- driven decline. Despite market concerns, the rise in inflation was much less than feared. China's PPI increased 9% in May, the highest since October 2008, but the CPI was only up 1.3% in the same period, much lower than the 3% policy target. The growth in PPI did not carry through to CPI, partly due to weaker pork prices and soft consumer demand. Commodity price spikes may be close to peaking, and we anticipate that supply will increase once more commodity-producing economies reopen, which should further ease pressure on inflation. Although there has not yet been any significant breakthrough in US-China relations under the Biden Administration, bilateral relations seem to be more stable and predictable than under Trump. Strong earnings growth, better-than-feared inflation and a stable external environment provided a nearly perfect setting for Chinse equities in the quarter.

The strong economic recovery and stable external environment provided the opportunity for Chinese leaders to execute disciplined monetary and fiscal policies focused on long-term challenges such as financial deleveraging and the aging Chinese population. The COVID-19 pandemic had interrupted China's effort to reduce economic leverage. The macroeconomic leverage ratio soared to 271% in the third quarter of 2020 from 246.5% in the fourth quarter of 2019. After seeing signs of economic stabilization, Chinese regulators shifted focus back toward reducing leverage and reigning in the "loose" monetary and fiscal policies applied during the pandemic. The growth rate of the total social financing (TSF) decreased to 11% in May from the recent peak of 13.7% last October and the growth rate of total government bonds decreased to 17% from 22% last December; both have returned to normalized levels. Over the next several quarters, we believe that China will continue along a path of disciplined monetary and fiscal policies designed to reduce financial leverage in the economy.

A second longer-term policy challenge for China is their aging population. In May, China released the results of its 7th census. The census in China is performed once every ten years, and that census provides key information for economic and social policies for the next decade. According to the latest census data, China's population reached 1.41 billion in 2020, implying around 0.53% annual population growth from 2010 to 2020, slower than the 0.57% growth from 2000 to 2010, and only half of the pace noted for 1990-2000. The working-age population shrank in both absolute terms and also as a share of overall population. To deal with the challenges of a declining labor population and a declining birth rate, China further relaxed its birth control policy to allow one couple to have as many as three children. The government also introduced new policies designed to improve labor productivity by relaxing the Hukou policy, which presumably will further increase the urbanization rate and encourage technological innovation. China's labor force peaked in 2013 but its economic growth has continued unabated through improvement in labor productivity. Technology and innovation will be a key policy focus in the coming decade to cope with an aging labor force. The changing demographics and China's policy responses will definitely reshape the country's economic structure and will drive changes which we believe are likely to generate new investment opportunities.

Despite the roller-coaster ride in Chinese stocks so far this year, global investors still seem enthusiastic about Chinese equities. Northbound flows (from Hong Kong to mainland China) have been a consistent bright spot and have grown meaningfully to US$33 billion year-to-date, 95% higher than the same period in 2020 and 106% more than last year's total. As a result, foreign ownership in A-shares (as a percentage of the total listed market) has risen to an all-time high at 4.5%, up from 3.6% at the end of 2019. Notably, foreign ownership of A-shares is still low compared to other foreign ownership in other Asian emerging markets. We believe this trend is likely to continue; according to a recent piece by Goldman Sachs, foreign ownership of A-shares is estimated to increase to 9% by 2030.

AVERAGE ANNUAL TOTAL RETURNS ***(as of June 30, 2021)***

	QTD	YTD	1 YR	3 YR	5 YR	10 YR	Since Inception 10/1/2005	Gross/Net Expense Ratio*
Oberweis China Opportunities Fund Institutional Class (OCHIX)**	**9.31%**	**5.80%**	**39.06%**	**18.38%**	**22.10%**	**12.07%**	**14.51%**	**1.69%/1.69%**
Oberweis China Opportunities Fund Investor Class (OBCHX)	**9.28%**	**5.61%**	**38.74%**	**18.06%**	**21.79%**	**11.79%**	**14.22%**	**1.95%/1.95%**
MSCI China Net	2.27%	1.83%	27.39%	10.36%	16.59%	7.71%	11.25%	

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. Unusually high returns may not be sustainable. Visit us online at oberweisfunds.com for most recent month end performance.

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.

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.

**Audited data as of December 31, 2020. Oberweis Asset Management, Inc. (OAM), the Fund's investment advisor is contractually obligated through April 30, 2022 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.*

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

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.

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Outlook

Chinese economic growth may be under pressure in the near term, despite a promising long-term outlook and increasing foreign investment in the first half. Economic growth was strong in the second quarter but the recovery was not even across sectors. Exports and industrials experienced the strongest growth but consumer spending continues to be soft. The service sector has still been sporadically impacted by periodic COVID-19 breakouts. Moreover, disposable income growth has slowed after the pandemic. The Caixin China General Services Business Activity Index (headline services PMI) fell by 4.8 points to 50.3 in June, the largest single-month decline since February 2020, which suggests that growth in the service sector slowed significantly in June. Although a ramp-up in vaccinations may aid service companies, it will take a much longer period of time to restore consumer confidence and increase the disposable income of consumers. Secondly, despite strong momentum in the first half, exports have already shown signs of moderation in the past few months. Exports could trend down in the second half of the year as supply chains are restored in other exporting economies. Finally, the property sector was another area that experienced strong growth and helped to stabilize the economy amid the pandemic. However, amid soaring home prices, Chinese regulators are nudging for less leverage by tightening funding channels and setting property-related loan caps for banks. The old drivers - exports, industry and property - are losing steam but new drivers, like consumption and technology, still need time to take shape. To support growth in the second half of the year, the Chinese government may need to speed up its fiscal spending to shore up domestic demand.

Despite the short-term pressure, we are still positive on China's long-term growth outlook. As the first country to recover from the COVID-19 pandemic, China's economy has been stronger than most. The ongoing transition to a consumption- and technology innovation-driven economy will make it even more competitive on the global arena. Rising inflows from foreign investors show a vote of confidence on China's future. Our strategy will continue to focus on misunderstood companies undergoing positive fundamental changes when we believe such changes have not yet been fully understood by the market. 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 renewable energy, healthcare and technology. 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.

Fund Highlights

During the quarter, the Fund was 99% invested in 85 companies. The biggest performance contributors were information technology, consumer discretionary and materials.

On the contrary, our biggest performance detractors were communication services, energy and industrials.

Organization Update

There was no change to the team during the quarter.

Oberweis Asset Management's Investment Phillosophy

We believe that investing in smaller companies driving revenue and earnings growth in excess of expectations results in superior investment performance over long periods of time. We believe that innovation is the key to economic growth and wealth creation and are committed to investing in companies at the forefront of innovation – smaller company stocks that offer the potential for extraordinary revenue and earnings growth.

The entrepreneurial spirit is alive and well at these companies. Many are nimble and uniquely address the needs of their customers with patented new products and services. Successful investing, however, demands more than finding companies with good growth prospects. We must also buy these stocks for our clients at prices that make sense. By paying careful attention to companies' valuations in relation to expected earnings growth rates, we seek to purchase stocks when they still have considerable appreciation potential.

For more information please contact:
Brett Pierson, Director, Head of National Key Accounts & Advisor Sales
Oberweis Asset Management, Inc.
3333 Warrenville Rd., Suite 500, Lisle, IL 60532
(800) 323-6166 | (630) 577-2354 | brett.pierson@oberweis.net