Oberweis
Asset Management

OBERWEIS CHINA OPPORTUNITIES FUND INSTITUTIONAL CLASS (OCHIX) MARKET COMMENTARY

2Q 2022

The Quarter in Review

For the quarter ending June 30, 2022, the Oberweis China Opportunities Fund gained 5.90% compared to 3.41% for the MSCI China Index. Year-to-date, the Oberweis China Opportunities Fund returned -21.59% versus -11.26% for the MSCI China Index.

The Chinese stock market took a rollercoaster ride during the quarter, driven by the ebb and flow of China's Covid-zero strategy. Equities traded down in the first half of the second quarter, troughed in mid-May, and recovered to become the best performing country among key global indices in the quarter. No policy in recent years has triggered more public debate than Covid-zero. It was effective in containing the spread of Covid-19 before the rise of the Omicron variant in late 2021. China's supply chain remained intact, and life continued largely without incident which was in great contrast to most other countries at the time. However, the Omicron variant, with its ability to spread much faster than previous variants and to evade the body's immune system, made Covid-zero much more costly. Indeed, the cost became intolerable when Shanghai, China's financial and logistic center, was fully shut down, leading to broad-based disruptions from late March until early June. Manufacturing and non-manufacturing PMIs tumbled down to 47.4 and 41.9, respectively, in April. For the first time since the Great Financial Crisis in 2007, both manufacturing and non-manufacturing PMIs were below the 50-threshold for three consecutive months (from March to May). Industrial output growth turned negative in April and consumer confidence hit a historical low at only 86.7 (it had been in the range of 100-120 over the past 15 years). As a result, Chinese equity markets plunged and continued that downward trend for the first half of the quarter.

To counter the downward economic spiral, the Chinese government stepped up stimulus. On the fiscal side, China's total fiscal deficit will be close to that of 2020, when Covid-19 first hit the country. In the first 27 days of June, local governments issued an astonishing RMB1.3 trillion of special bonds to flush the economy with cash. On the monetary side, China also cut its 5-year loan prime rate (LPR) rate by 15 bps, the biggest single cut in history, to boost corporate borrowing and individual property purchases. The government also significantly loosened policies in the property sector. Since the beginning of the year, more than 100 cities announced supportive policies to encourage home buying. As the Omicron wave faded, Beijing recalibrated its Covid policy as well. After two years of required 14-day quarantines for international travelers, the quarantine time was reduced in half to 7 days and nasal swab testing was replaced with gentler throat testing. Thanks to these pro-growth policies, the Chinese economy stabilized and has begun to bounce back. NBS manufacturing and non-manufacturing PMIs returned to the expansionary territory for the first time since March, reaching 50.2 and 54.7 respectively in June. As the policy easing cycle became clear and sparks of economic recovery became apparent, the Chinese stock market rebounded strongly from the two-year trough in mid-May.

Stunning global inflation and recession risks also pressured the Chinese equity markets in the quarter. Historically high global inflation pressure has forced the US Fed to hike interest rates much faster than expected, which drove capital out of emerging markets. RMB, the Chinese currency, depreciated by more than 5% in the quarter. China's large foreign exchange reserves will provide enough ammunition for Chinese regulators to stabilize the currency. As global recession risks rise, China's export growth is likely to decelerate, which will add uncertainties to the Chinese economy in the second half of the year. However, a rebound of domestic demand, after China's crisis stimulus and relaxing of Covid policies, will provide cushion in the global economic turbulence. For example, the Chinese government cut auto purchase tax in May and auto sales saw a sharp turnaround in June, up 16% year-over-year.

AVERAGE ANNUAL TOTAL RETURNS *(as of June 30, 2022)*

	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)**	**5.90%**	**-21.59%**	**-29.77%**	**9.38%**	**8.00%**	**11.24%**	**11.21%**	**1.62%/1.62%**
Oberweis China Opportunities Fund Investor Class (OBCHX)	**5.88%**	**-21.72%**	**-29.89%**	**9.15%**	**7.74%**	**10.97%**	**10.94%**	**1.87%/1.87%**
MSCI China Net	3.41%	-11.26%	-31.79%	-0.57%	2.14%	5.49%	8.05%	

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, 2021. Oberweis Asset Management, Inc. (OAM), the Fund's investment advisor is contractually obligated through April 30, 2023 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

China's Covid-zero policy and global economic growth outlook will continue to be key to China's stock market performance in the near term. The Chinese economy was hit badly by the Covid-zero strategy in April and May as the national supply chain was severely disrupted and service sectors were largely closed. Fortunately, it did not take too long for the policymakers to realize the damaging impact of the policy and adjust. Looking forward, it is unlikely that China will go back to the full-scale strict Covid-zero policy and we expect that economic policy will be more pro-growth. Although a V-shaped recovery is less likely this time given lingering Covid restrictions (including contact tracing, quarantine, and testing), the Chinese economy is clearly recovering. The global economic slowdown will also clearly weigh on the Chinese economy, but the stimulus policies initiated recently are taking effect and will partially offset the negative effect of external demand. With initial signs of economic recovery and favorable policies, we are more optimistic on the Chinese economy in the second half of the year. Fund inflows to the Chinese market is a good indicator of investor confidence. After a short net capital outflow, capital inflows were surprisingly strong in the quarter, with a total of USD26billion net inflows. This was exceptional, particularly after considering the strong USD backed by Fed's consecutive interest rate hike decisions and general capital outflows from emerging markets. Chinese stock valuations are compelling, both in absolute terms and relative to those in other geographies. The MSCI China Index is trading at a P/E ratio of 11.7x forward 12 month estimates with 8% estimated earnings growth in 2022 and 13% growth in 2023.

Despite the short-term pressure, we are still positive on China's long-term growth outlook and most importantly our ability to find undervalued opportunities, particularly at today's equity valuations. 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 in China's future. Our Fund 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 industrials, healthcare and consumer discretionary. Generally, these companies are leading players in niche markets whose growth is more predicated on product acceptance than on overall GDP growth. Many of these ideas are beneficiaries of the ongoing structural economic and social changes occurring in China.

Fund Highlights

During the quarter, the Fund was 99.4% invested in 58 companies. On the contrary, our largest detractors were information technology, real estate and utilities.

Organization Update

Patrick B. Joyce, our Chief Financial Officer and Chief Compliance Officer, has announced his retirement effective December 31, 2022. Pat has been an invaluable leader and mentor to many in this organization throughout his 28 years of loyal and distinguished service. He will be greatly missed, although we know Pat is excitedly looking forward to spending more time with his three young grandchildren. We wish him all the best.

With Pat's guidance and input, we have been planning for his eventual retirement for some time and have been grooming his internal successors. Beginning next year, Pat's role will be split in two. Eric Hannemann will be promoted to Chief Financial Officer. Eric joined OAM in 2004 and is currently Vice President of Accounting, reporting to Pat. Eric earned an MBA from the University of Chicago and a BA from Michigan State University. Tom Joyce will be promoted to Chief Compliance Officer. Tom joined OAM in 2010 and is currently Vice President of Compliance, reporting to Pat. Tom earned a BS from Northern Illinois University. We are confident that both Eric and Tom have the experience and education to seamlessly assume these responsibilities at OAM.

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.

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