Oberweis Asset Management

OBERWEIS CHINA OPPORTUNITIES FUND INSTITUTIONAL CLASS (OCHIX) MARKET COMMENTARY

3Q 2022

The Quarter in Review

For the quarter ending September 30, 2022, the Oberweis China Opportunities Fund returned -23.61% compared to -22.50% for the MSCI China Index. On a year-to-date basis, the Composite returned -38.73% while the Index returned -40.10%.

Chinese equities experienced their worst quarter since 2015, beset with both internal and external troubles. Despite rebounding from the second quarter trough, economic activity in China remained under pressure and the pace of recovery was slower than many expected. China's Covid-19 policy was the main drag on the economy, especially for service sectors. Non-manufacturing PMI trended down to 50.6 in September from 54.7 in June. The dim economic outlook has also dampened private sector confidence. Private sector capital expenditures dipped to a new post-pandemic low of 2%. External demand also deteriorated significantly in the quarter in the face of slowing global growth and a shift in global supply chains away from China amid rising geopolitical tension between China and the US. Export growth slowed down to 5.7% in September from 17.8% in July. As a result of these new developments, estimated GDP growth in China fell to 3.4% in September from 4.1% in June.

Though a series of supportive policies have been rolled out in the past few months, the beleaguered property sector continued to take a toll on the economy. As property developers have run out of funding to finish properties, a growing number of buyers in China have stopped making mortgage payments on incomplete homes. The mortgage payment boycotts are a sign of the distress in China's property market as the government seeks to rebalance the sector. According to Goldman Sachs, up to RMB 2-2.4 trillion of mortgages could be at risk. Given the potential implications for China's financial system, more aggressive policies were launched in the last week of September, including a reduction in the mortgage rate for first home buyers, more direct funding to unfinished projects and even direct property purchases by local government-sponsored entities. Although Chinese property sector policies have consistently been behind the curve this cycle, it seems that the government has finally stepped up the stimulus recently, especially after the nationwide mortgage payment delay in late July. Although it will take some time for these new measures to take effect, we believe that the worst of the property market crisis may be behind us.

The strong US dollar has also made China's economic management more complicated. Although a weak Chinese Yuan stimulates exports, it also tends to drive up capital outflows in the near term. Offshore Chinese Yuan depreciated another 6.7% in the quarter after a 5.3% drop in the previous quarter, hitting the lowest level since 2008. Hong Kong-to-Mainland fund flows were negative again, with a US $2.8bn net outflow in the quarter. A hawkish Fed limits the ability of Chinese policymakers to utilize looser monetary policy to stimulate the economy. Despite moderate inflation, China has maintained a neutral monetary policy, given weak economic growth experienced in the past few quarters. As long as the Fed maintains a hawkish stance, it is hard for Chinese regulators to ease materially.

AVERAGE ANNUAL TOTAL RETURNS ***(as of September 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)**	**-23.61%**	**-40.10%**	**-40.96%**	**-0.09%**	**-1.01%**	**7.65%**	**9.29%**	**1.62%/1.62%**
Oberweis China Opportunities Fund Investor Class (OBCHX)	**-23.64%**	**-40.23%**	**-41.04%**	**-0.33%**	**-1.25%**	**7.40%**	**9.02%**	**1.87%/1.87%**
MSCI China Net	-22.50%	-31.23%	-35.39%	-7.18%	-5.56%	2.37%	6.32%	

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

Returns for Chinese equities have been disappointing since early 2021, when China restarted efforts to rebalance the economy after emerging from the first wave of the pandemic. Unfortunately, China underestimated the persistence of the COVID-19 virus and did not adjust policy as new information emerged.

It is very clear that the two main drags on the Chinese economy now are the COVID-zero policy and a declining property sector. The good news is that China is calibrating policies on both. For Covid, regulators allowed Hong Kong to effectively scrap the strict Covid-19 quarantine requirements for travelers beginning in late September. Domestic COVID policy has become more flexible and is now based on local situations.

One reason we expect change is that the current status quo is not fiscally sustainable. China faces an estimated RMB 4 trillion funding gap for 2022 and spare fiscal reserves will be used up in early 2023. To avoid a potential cut in essential social benefits in 2023, either an increase in public leverage or an exit from Covid-zero is likely needed to support growth. For the property sector, a set of nation-wide policies were announced recently, including lower mortgage rates for first time home buyers and tax benefits for second time home buyers. The political cycle is an important factor in the Chinese economy as government officials tend to pause before major leadership reshuffles, while advancing at full speed after new leadership is established. It is very likely that the government will refocus on economic growth after the new leadership is established in the 20th CCP National Congress in mid-October. Looking forward, we expect the government to relax COVID restriction policies over time. We also believe the property sector is likely to bottom out as recent stimulus policies take effect. While Covid-19 shutdowns and property market malaise seem likely to improve, continued geopolitical tensions are likely to persist.

While China faces some headwinds, most investors are aware of them and have discounted these risks into stock valuations. After the recent sell-off, Chinese equities trade for below-average valuations. The forward 12-month price-to-earnings ratio is at 9.6x with earnings growth of 4% and 9% in 2022 and 2023 respectively, compared with 10-year historical average of 11.3x.

As for our Fund, we continue to focus on misunderstood companies undergoing positive fundamental changes where we believe such changes have not been fully understood by the market yet. We look for niche-oriented companies whose success is more predicated on product success, technology innovation, regulatory changes, and the evolution of new markets in China. In the quarter, we found new ideas in the petrochemicals, consumer discretionary and technology 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.

Fund Highlights

During the quarter, the Fund was 92.9% invested in 52 companies. The biggest performance contributors were consumer discretionary, industrials and communication services.

On the contrary, our biggest performance detractors were health care, real estate and financials.

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.

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