

OBERWEIS CHINA OPPORTUNITIES FUND INSTITUTIONAL CLASS (OCHIX) MARKET COMMENTARY

1Q 2023

The Quarter in Review

In the first quarter, the China Opportunities Fund returned -2.20% versus 4.71% for the MSCI China Index. Although China's economy "reopened" at the end of last year and economic conditions have begun to gradually recover, China's stock market has remained choppy. We believe that a weaker-than-expected economic recovery, an adverse shift in the Chinese government's attitude toward private enterprises and entrepreneurs, and continued geopolitical tensions with the USA have kept a lid on appreciation. These uncertainties have significantly dampened investors' risk appetite and exacerbated market volatility, overshadowing reasonable fundamental performance of some of our individual holdings.

Much of the short-term investment thesis for China has been predicated on expected post-pandemic "return to growth," particularly via release of pent up consumer demand. Those hopes were bolstered by strong consumption during the Lunar New Year period, which many investors extrapolated to imply a strong full year for domestic consumption. But after three years of self-isolation, it is clear that China's economy was hit much harder than previously expected. Post re-opening, we have seen a divergence in recovery between different economic sectors. For example, investment in infrastructure and state-owned enterprises remained high at 10% and 9% growth, respectively. However, private enterprises, after three years of continuous downturn and policy uncertainty, have not yet experienced a resurgence of confidence. The growth rate of private fixed asset investment was still less than 1% in the first two months of 2023. Despite healthy savings, consumers just are not spending at the rate investors had hoped for, perhaps attributable to caution around expected difficult economic times ahead globally. Automotive sales fell 9.4% in January-February. The bottom line is that while China's economy is likely to recover over time, it is not happening at the pace investors had hoped for.

More importantly, investors began to question the Chinese government's ability to effectively respond to the current economic challenges. There are even questions over whether China remains committed to a market economy. To answer these questions, the new Chinese government, in addition to maintaining a relatively loose monetary policy and a proactive fiscal policy, has begun to communicate more actively with the business community, especially foreign investors and domestic private businesses. At the China Development Forum hosted by the State Council's Development Research Center in March, new Premier Li Qiang repeatedly met with business leaders and revealed pro-business policy leanings. For the private economy, which has suffered tremendously during the pandemic, the new government has suddenly emphasized the importance of the private economy and its contribution to China's growth over the past four decades. Significantly, Chinese regulators appear to have ended its regulatory crackdown on the platform economy, but have also actively invited influential entrepreneurs to return to China. Alibaba Group's founder Jack Ma's high-profile return to China at the end of March has great symbolic significance. Alibaba has also restructured and announced that its subsidiaries can be listed separately if they meet the conditions, which is undoubtedly a positive sign, as the listing of the relevant subsidiaries of the Internet platform giant was previously stalled due to regulatory requirements after the suspension of Ant's listing. While it is difficult to conclude that there will be no more severe regulatory crackdowns on the private sector in China in the future, recent developments are clearly positive. Although the Chinese government has previously emphasized the strategic position of state-owned enterprises, the role of the private sector in terms of employment and economic growth is undoubtedly crucial.

AVERAGE ANNUAL TOTAL RETURNS (as of March 31, 2023)

	QTD	1 YR	3 YR	5 YR	10 YR	Since Inception 10/1/2005	Gross/Net Expense Ratio*
Oberweis China Opportunities Fund Institutional Class (OCHIX)**	-2.20%	-16.74%	0.59%	-2.09%	5.71%	9.19%	1.80%/1.78%
Oberweis China Opportunities Fund Investor Class (OBCHX)	-2.10%	-16.88%	0.38%	-2.33%	5.46%	8.93%	2.05%/2.03%
MSCI China Net	4.71%	-4.73%	-2.64%	-4.01%	3.38%	7.19%	

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, 2022. Oberweis Asset Management, Inc. (OAM), the Fund's investment advisor is contractually obligated through April 30, 2024 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%. Effective May 15, 2023, the adviser may recoup the amount of any expenses reimbursed under the contract within three years following the date of the reimbursement if the recoupment does not cause the Fund's expenses to exceed the expense limitation in place at the time of the recoupment, or the expense limitation in effect at the time of the initial reimbursement, whichever is lower.

**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.

The Quarter in Review (continued)

Lastly, it's hard to ignore the rising geopolitical situation, with Taiwan at the center of the US-China conflict. This conflict has also depressed western appetite for Chinese investments. Since the Biden-Xi meeting at the Bali G20 Summit last November, investors had hoped that Secretary of State Antony Blinken's visit to China would improve Sino-US relations. But the balloon incident and Blinken's suspension of plans to visit China undoubtedly made such an idea come to naught. The ambiguous Sino-Russian relations have made matters worse. Fortunately, the bluster has not materialized into actions at this stage, but concerns over future potential conflict in Taiwan remain front and center. It may no longer be possible for Sino-US relations to return to the "Golden Age", but we expect that both sides are likely to rationally manage risk.

Outlook

Against the backdrop of slowing economic recovery and rising geopolitical tensions, state-owned enterprises and large-cap companies led the market due to their relatively stable (albeit low) earnings prospects. For small- and mid-cap companies, risk aversion remained high, even for those showing improving fundamentals and low valuations. This gives us the opportunity to buy quality businesses at attractive prices. As China's economy returns to normal, economic growth is likely to chug along at one of the fastest rates among major economies for the foreseeable future. In the shadow of recession in Europe and America, such economic growth is particularly eye-catching. Relatively loose monetary and fiscal policies in the short term seem likely to support equity asset valuations. We also believe that as the Chinese economy continues to recover, mispriced quality companies with good fundamentals will deliver attractive returns to investors. After a year of weak performance, valuations of Chinese equities trade for below-average valuations. The forward 12-month price-to-earnings ratio of MSCI China Index is at 10.7x with estimated earnings growth of 16% for both 2022 and 2023, compared with 10-year historical average P/E of 11.2x.

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. We look for niche-oriented companies whose success is more predicted on product success, technology innovation, regulatory changes, and the evolution of new markets in China. In the quarter, we found new ideas in the information technology, consumer discretionary and healthcare 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 99.9% invested in 65 companies. The biggest performance contributors were information technology, consumer staples and financials.

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

Organization Update

Monica Chen, an analyst on the team, resigned in conjunction with her family's decision to relocate outside of China. We wish her the best in her future endeavors.

Oberweis Asset Management's Investment Philosophy

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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