Oberweis
Asset Management

OBERWEIS CHINA OPPORTUNITIES FUND INSTITUTIONAL CLASS (OCHIX) MARKET COMMENTARY

3Q 2023

The Quarter in Review

For the quarter ending September 30, 2023, the Oberweis China Opportunities Fund returned +2.11% compared to -1.94% for the MSCI China Index, an outperformance of 405 bps. On a year-to-date basis, the Fund returned -7.02% versus -7.29% for the Index.

Market sentiment towards China remains fragile. Second quarter economic data was weaker-than-expected across the board. Many investors now doubt that China will achieve its 5% economic growth target established at the beginning of the year. GDP forecasts are coming down. According to a survey by Bloomberg, estimates for China's economic growth rate in 2023 and 2024 have been revised down from 5.6% and 5% in April to 5% and 4.5%, respectively. Additionally, some fear that China is entering a debt-deflation spiral, while foreign capital outflows from China have begun to accelerate. In the third quarter, more than $12 billion flowed out of mainland China through Stock Connect, marking the greatest quarterly capital outflow since the launch of the Connect program in 2014.

The sluggish economic sentiment has obscured the pro-growth policies that the Chinese government rolled out in the quarter, which have been rare in recent years. In August, China accelerated the rollout of economic stimulus policies, including a series of measures targeting real estate, capital markets, and consumer spending. On August 27th, the Ministry of Finance announced a 50% cut to the stamp duty. The adjustment, the first since 2008, is significant for lowering transaction costs, and was widely hoped for by the market following the Politburo meeting in July. On August 31st, the People's Bank of China (PBoC) announced nationwide mortgage easing measures for both first and second homes, the first time in eight years. This included cutting the minimum down payment ratio to 20% for the first home (from 30%) and 30% for the second home. On September 15th, the PBoC announced a 25bps cut in the reserve requirement ratio (RRR). This follows the cuts of 10-25bps in bank deposit rates and a 15bps cut in the one-year medium-term lending facility (MLF) rate in August, reflecting policymakers' efforts to support the economy.

Because policy transition takes time to take effect, we expect growth to remain somewhat soft in the near term, but now have a higher conviction that GDP growth will accelerate in 4Q23. We also see clear signs of stabilization in the Chinese economy from recent economic data. Industrial production growth has rebounded to an annual rate of 4.5% in August, and the underlying details reveal a comprehensive recovery across downstream sectors (including autos, consumer electronics, and food) and mid-stream sectors (such as chemicals and plastics), while upstream production (especially ferrous and non-ferrous metals) has further strengthened. The manufacturing PMI for September rose by 50bps to 50.2, returning to an expansionary phase for the first time since March.

AVERAGE ANNUAL TOTAL RETURNS ***(as of September 30, 2023)***

	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)**	**2.11%**	**-7.02%**	**-2.16%**	**-13.52%**	**0.22%**	**2.78%**	**8.62%**	**1.80%/1.78%**
Oberweis China Opportunities Fund Investor Class (OBCHX)	**2.00%**	**-7.14%**	**-2.49%**	**-13.73%**	**-0.05%**	**2.52%**	**8.35%**	**2.05%/2.03%**
MSCI China Net	-1.94%	-7.29%	5.24%	-14.27%	-4.16%	1.67%	6.26%	

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. It is not possible to invest directly in an index.

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Outlook

Investors remain skeptical about the sustainability of China's ongoing recovery due to concerns surrounding debt, demographics, and deflationary pressures. Similar challenges in the 1990s led Japan into a prolonged period of stagnation under a deflationary spiral. Many investors fear that China may face a similar fate in the future. However, the current situation in China differs significantly from Japan's past experience. First, the financial health of Chinese households and businesses is notably stronger than those in Japan during its crisis. The issues related to real estate and debt in China primarily affect developers, rather than the businesses and individuals purchasing assets. Secondly, while Japanese companies struggled to increase capital expenditures due to the need to repair their balance sheets, Chinese companies face a lack of investment confidence stemming from inconsistent policies and limited visibility. Throughout the year, the Chinese government has implemented various measures to solve these issues. Thirdly, China demonstrates a better understanding and response to potential deflationary pressures compared to Japan's initial inadequate policy response. With the central government's low debt leverage ratio, there is ample policy flexibility to address potential deflation and demand shortfalls.

To support economic growth, Beijing has implemented various stimulus measures including reducing required housing down payments, reducing stock stamp duties, and reducing interest rates at a pace not seen since late 2018. This has strengthened the belief that growth could improve in coming quarters. It highlights that economic growth remains a top priority for the Chinese government. Additionally, it is expected that the Chinese government will provide a clearer roadmap for addressing long-term demographic and debt challenges in the upcoming 20th Third Plenary Session.

Despite the challenges China is currently facing, most investors are well-informed about these headwinds and have already factored them into the valuation of stocks. Following the recent market downturn, Chinese equities are now trading at below-average valuations. The forward 12-month price-to-earnings ratio stands at 9.76x, with projected earnings growth of 10% and 15% in 2022 and 2023, respectively. This P/E compares favorably to the 10-year historical average of 11.3x.

As for our Fund, 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 identified promising opportunities in the Information Technology, Consumer Discretionary and Industrials 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% invested in 57 companies. The biggest performance contributing sectors were Information Technology, Consumer Discretionary and Communication Services. On the contrary, our biggest performance detractors were Health Care, Industrials and Real Estate.

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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