

OBERWEIS CHINA OPPORTUNITIES FUND INSTITUTIONAL CLASS (OCHIX) MARKET COMMENTARY

4Q 2023

The Quarter in Review

For the quarter ending December 31, 2023, the Oberweis China Opportunities Fund outperformed the MSCI China Index by 362 bps, returning -0.60% compared to -4.22% for the Index. For the year, the Fund exceeded its benchmark by 362 basis points, returning of -7.58% versus -11.20% for the benchmark.

Following China's abrupt reopening in late 2022, investors seemed optimistic that pent-up demand from nearly three years of Covid lockdown would ignite economic growth and propel the economy back to its pre-Covid growth trajectory. However, it is now apparent that such expectations significantly underestimated the structural challenges facing China's economy, as well as the adverse effects of opaque policymaking and policy inconsistency. After peaking in January 2023, Chinese equities reversed course and made new lows for the year. Even in the fourth quarter, when other major markets fared very well, the decline in China continued unabated. A weak economy, policy uncertainty and geopolitics continued to hamper China's capital market performance.

Even as Sino-US relations gradually stabilize (albeit at a low level) and China rolls out incremental stimulus, its economy remains weak. Economic growth in 2023 fell far short of expectations, with results not even eclipsing what many believed to be an easy-to-beat target – the official 5% growth forecast. Structural factors such as demographics and debt took a toll on China's medium- and long-term economic development. Without an effective policy response, the Chinese economy experienced weakness rarely seen in the past decade. China's growth in 2023 was 4.74% (on a non-adjusted basis) versus the government's target of 5%, significantly weaker than market expectations, which were already lowered to 5.2% in December for 2023 and 4.5% for 2024. Manufacturing PMI has been below the threshold of 50 for three consecutive months since September. In December, it hit its lowest level since May, at 49. PPI has been negative for 15 consecutive months, and industrial enterprise profits were -4.4% in the first eleven months. Real estate sales fell by 8% and investment fell by 9.4%.

Due to multiple government crackdowns on private enterprises over the past few years, private capital investment has been very sluggish, remaining in a contractionary range for 8 consecutive months. This has put considerable pressure on employment. The unemployment rate among young people was reported to be over 20% in July, and the government stopped reporting this data ever since. Weak economic growth undoubtedly has also impacted corporate profits. In the first three quarters, profits of companies in the MSCI China Index fell by 4.77%. According to Morgan Stanley's research, the proportion of Chinese-listed companies that missed market expectations hit the highest level on record.

Thus far, China's policy response has failed to stem the economic downturn. In past economic downturns, the Chinese government was generally able to turn the tide with stimulus. But this time is different. Throughout the year, the Chinese government introduced a series of stimulus policies, especially for the real estate market, such as relaxing purchase restrictions in first and second tier cities, lowering down payments and cutting interest rates. However, these measures have not been able to stabilize the near-term economic growth. By the time the third quarter economic data came out, Chinese policymakers understood the severity of the situation and accelerated the pace of stimulus measures. For the first time since 2000, the Chinese government increased the fiscal deficit arrangement in the middle of the year. Soon after, China's central bank once again used the PSL (Pledged Supplementary Lending) policy tool in December. PSL has the dual functions of "quasi-fiscal" and "quasi-monetary". It is both a new channel for injecting base money and can guide medium-term interest rates by allowing commercial banks to obtain financing from the central bank through collateral assets. This tool has very strong policy implications, meaning that China will adopt a more proactive monetary and fiscal policy to stimulate the economy even more than before. These are undoubtedly milestones for China on the road to fighting deflation and stimulating growth.

AVERAGE ANNUAL TOTAL RETURNS (as of December 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)**	-0.60%	-7.58%	-17.97%	3.44%	1.35%	8.46%	1.80%/1.78%
Oberweis China Opportunities Fund Investor Class (OBCHX)	-0.60%	-7.70%	-18.17%	3.18%	1.11%	8.19%	2.05%/2.03%
MSCI China Net	-4.22%	-11.20%	-18.43%	-2.80%	0.85%	5.92%	

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.

*Institutional Class shares OCHIX performance information was calculated using the historical performance of Investor Class shares for periods prior to May 1, 2017. Investor Class share OBCHX inception date 10/01/05.

**Expense ratio as of 12/31/23. Oberweis Asset Management, Inc. (OAM), the Fund's investment advisor is contractually obligated through April 30, 2025 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 at the time of the reimbursement, whichever is lower.

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

Looking into 2024, we do not believe the Chinese economy will see a sharp V-shaped rebound, but we think the worst is behind us. Although the Chinese economy has faced severe difficulties over the past year, we have also seen some positive shifts. First, after nearly a decade of rebalancing, consumption has started to gradually increase its contribution to GDP. Although consumption recovery has not been as robust as investors expected at the beginning of the year, it has undoubtedly been more resilient than investment and exports. In 2023, China's total retail sales of consumer goods grew 7.2% vs. -4.6 and 3% for export and investment, respectively. Even in the third quarter when overall GDP growth was disappointing, consumption was still a bright spot. Second, destocking of real estate inventory appears to be nearing an end. Real estate has been a huge drag on economic growth this year. Real estate investment once accounted for almost 20% of China's GDP at its peak, and it has now fallen to about 12% in 2023. Sales at the top 100 real estate companies have also fallen by nearly half compared to the four-year average. After such a deep adjustment, the real estate sector is likely to be less influential in the future. Third, policy stability in China has clearly started to improve after going through several dark years. At the end of the year, for example, China's Publication Administration hastily rolled out a draft regulatory document targeting the gaming industry, causing tremendous shock to the market and reminding many that strong regulation would make a comeback. However, the government quickly executed on a series of measures to clarify and soothe market sentiment, including early approval for a batch of new electronic games and a promise to consider advice from gaming companies in the final version. It is also reported that the head of the Publication Administration may be removed due to the policy's negative impact on capital markets. If true, he will be the first official to be dismissed due to mishandling of economic issues. Lastly, although China-U.S. relations remain full of twists and turns, Xi Jinping and Biden reaffirmed each side's core concerns when they met at the OPEC Summit in the U.S., which itself is important for reducing miscalculation amid tense relations. A stable geopolitical environment will help increase investors' risk appetite.

Despite the challenges China is currently facing, they are well-known headwinds and are likely already being discounted in stock valuations. Following the recent market downturn, Chinese equities are now trading at depressed valuations. The forward 12-month price-to-earnings ratio stands at 9x, with projected earnings growth of 16% and 17% in 2024 and 2025, respectively. This is in comparison to the 10-year historical average of 11.2x.

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 99.7% invested in 50 companies. The biggest performance contributors were information technology, consumer discretionary and materials. On the contrary, our biggest performance detractors were health care, communication services and financials.

Organization Update

There was no change to the team during the quarter.

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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