

OBERWEIS CHINA OPPORTUNITIES FUND INSTITUTIONAL CLASS (OCHIX) MARKET COMMENTARY

1Q 2024

The Quarter in Review

In the first quarter, the China Opportunities Fund returned 1.35% versus -2.19% for the MSCI China Index. Over the last 15 years, the Fund has generated significantly better returns than the index, with an annualized return of 9.00% versus 4.20% for the index.

The muted quarterly benchmark return masks significant volatility in China this quarter. In the first ten trading days of January, the MSCI China Index had dropped by 12%, nearing the magnitude of decline seen in all of 2023, nearly sparking market panic. This downturn was fueled by concerns of both macro long-term challenges for China, as well as micro-level factors in the market, which appear to be exacerbated by algorithmically-induced trading selloffs. Subsequently, the Chinese government implemented a series of measures to stabilize the market, including the implementation of state-backed funds, or 'national teams', to act as a stabilizing force, appointing a more market-friendly CSRC chairman, and larger-than-expected cuts in reserve requirement rates (RRR) and interest rates. As market confidence gradually recovered, share prices rebounded to beginning-of-year levels. Over the past few quarters, we have witnessed this rollercoaster-like market performance multiple times. Underneath these fluctuations lies a combination of deteriorating investor structure at the micro level—namely, long-term investors exiting the Chinese market—and increasingly unpredictable corporate earnings for Chinese firms. Further, unpredictable and inconsistent government policies have added to the instability.

China's first quarter economic data has been a mixed bag. Compared to extremely pessimistic expectations at the beginning of the year, it surprised the market to the upside. Both manufacturing and services PMI data for March have surpassed expectations. The manufacturing PMI returned above the 50 threshold level for the first time since October of 2023, reaching 50.8, while the services PMI hit its highest level since July of last year, reaching 53. Industrial enterprise profits grew by 10.2% in the first two months, the highest since December 2021. Private enterprise capital expenditure turned positive for the first time since May last year. All these indicate a gradual recovery in the Chinese economy. However, deflationary pressures in China remain. Although the CPI turned positive in February, the PPI remains at -2.7%, remaining in negative territory for the 17th consecutive month. Consumer demand remains weak, with social retail sales increasing by only 5.5% in the first two months and yielding two consecutive months of deceleration. Real estate continues to be the biggest drag on the economy, with sales falling by 32.7% in January and February. Overall, the economy is currently experiencing a tepid recovery, and its sustainability requires further observation.

To address the challenges facing the economy, the Chinese government has implemented a series of monetary and fiscal easing policies. On January 24th, the People's Bank of China (PBoC) unexpectedly announced a 50 basis point reduction in the reserve requirement ratio (RRR) and a 25 basis point targeted cut on relending and rediscount rates. On February 20th, the Chinese central bank lowered the five-year Loan Prime Rate (LPR) by 25 basis points, the largest one-time cut ever, surpassing market expectations of a 10 basis points cut. The five-year LPR serves as an anchor for mortgage rates, and this reduction will undoubtedly stimulate demand in the property market. In terms of fiscal policy, the aggregate fiscal deficit for 2024 is projected to reach 11.9%, up from 11.2% in 2023. In terms of medium to long-term fiscal arrangements, the central government has proposed issuing special national bonds of 1 trillion yuan annually over the next five years to support economic development. During this year's National People's Congress (NPC), the Chinese government set a GDP growth target of 5%, higher than most market predictions. Achieving this target will require more proactive support from monetary and fiscal policies.

AVERAGE ANNUAL TOTAL RETURNS (as of March 31, 2024)

	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)**	1.35%	-4.22%	-16.70%	-0.84%	1.44%	8.42%	1.90%/1.90%
Oberweis China Opportunities Fund Investor Class (OBCHX)	1.22%	-4.57%	-16.90%	-0.90%	1.19%	8.15%	2.16%/2.15%
MSCI China Net	-2.19%	-17.05%	-18.92%	-6.33%	1.24%	5.72%	

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.

*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.

**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.

The Quarter in Review (continued)

After experiencing decades of rapid development, the Chinese economy is indeed facing a series of complex and severe internal and external challenges, including but not limited to aging population, mounting debt, and geopolitical risks. However, challenges and opportunities coexist, and in the process of transformation, the Chinese economy has also shown new investment opportunities. Firstly, amidst pressures from global supply chain diversification, Chinese companies, with the advantage of a well-established local supply chain, continuously innovate products and services to meet the increasingly personalized and high-end demands of domestic consumers and are seizing this opportunity to expand into international markets. For instance, Li Auto produces extended-range electric SUVs and MPVs tailored specifically for Chinese households, while BYD has successfully gained increased market share in the international arena. Secondly, with the end of the high growth stage, there has been a decline in capital expenditures, which has led to stronger free cash flows among many leading enterprises. These superior businesses are increasingly inclined to reward investors through share buybacks and cash dividends. This trend is particularly evident among Chinese internet companies and traditional energy sectors. Thirdly, with the rise of the AI wave, there has been a surge in demand for related hardware, presenting immense growth opportunities for companies with core technological advantages, such as those in Taiwan's semiconductor value chain.

Outlook

Looking ahead, we believe that with the active fiscal and monetary policies in China, the Chinese economy will stabilize in the short term. Concerns over further economic downturns will likely prompt the government to step up stimulus measures should economic growth prove unsatisfactory. With the Federal Reserve likely to restart a cycle of interest rate cuts, the pressure on RMB depreciation will decrease, further expanding the room for China's monetary policy. Therefore, we believe that the most pessimistic case for the Chinese economy may have passed. As the base effect kicks in during the second half of the year and policies gradually take effect, we expect the growth rate of the Chinese economy to gradually accelerate. At the same time, deflationary pressure is likely to diminish as economic activity picks up and market demand strengthens. After years 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 9.15x with estimated earnings growth of 10.94% and 13.69% in 2024 and 2025, respectively, compared with 10-year historical average P/E 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 found new ideas in the information technology, industrials and materials 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 99.3% invested in 55 companies. The biggest performance contributors were consumer discretionary, information technology and healthcare. On the contrary, our biggest performance detractors were utilities, 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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