Oberweis
Asset Management

CHINA OPPORTUNITIES MARKET COMMENTARY

2Q 2024

The Quarter in Review

For the quarter ending June 30, 2024, the Oberweis China Opportunities Composite gained 5.01% (4.72% net of fees) versus 7.09% for the MSCI China Index. Over the last 15 years, the strategy has generated significantly better returns than the index, with an annualized return of 8.01% (6.70% net of fees) versus 2.57% for the index.

After experiencing a highly subdued first quarter, China's stock market rebounded in the second quarter, driven primarily by better-than-expected economic data and policy support for the real estate market. This has, in the view of many investors, virtually eliminated the risk of a deflationary spiral recession. GDP growth in the first quarter was 5.3%, significantly exceeding the market expectation of 4.8%, and higher than the Chinese government's target of 5%. Exports and manufacturing were the main driving forces. The property market, which has been a significant drag, also saw improvement in the quarter. After the Politburo meeting in April, major cities, including Beijing and Shanghai, began to ease real estate regulations. Although the new housing market remains relatively sluggish amid buyer concerns of developer stability, the secondary housing market, especially in first-tier and key second-tier cities, has begun to rebound significantly. The Chinese real estate market has shown signs of stabilization, which is a welcome relief to the overall economy.

Meanwhile, weak consumption and inflation data suggest that domestic demand in China still leaves room for improvement. Disappointingly, although the Chinese government has introduced multiple rounds of supply-side reforms, effective demand-side reform policies are lacking. Although total retail sales growth in May exceeded market expectations, it was still only 3.7%, remaining at a low level, far below the pre-pandemic 8-10%. The Consumer Price Index (CPI) is still hovering near zero, currently around 0.2%. In June, the PMI for the service sector was not only lower than the expected 51, but also the lowest level of the year at 50.5. Weak consumer confidence and subdued domestic demand continue to be the main issues affecting the Chinese economy, which has restricted the potential growth of Chinese equity markets.

The Third Plenary Session of 20th CCP Central Committee, which will be held in mid-July, is a meeting of great importance to investors. In China, the Third Plenary Session often signifies reform and hope. The most classic example is the Third Plenary Session of the 11th CCP Central Committee in 1978, where Deng Xiaoping established the "reform and opening-up" policy that propelled China's economic takeoff. This meeting is expected to discuss a series of important policies, possibly involving deepening reforms, expanding openness, and promoting innovation, which will provide significant influence on the country's future economic direction. After breaking away from the original policy framework dominated by economic growth following the pandemic, the Chinese government has not established a new alternative framework for investors to reference. Investors remain hopeful that the government will propose a more transparent and predictable policy framework in this Third Plenary Session. If achieved, this would help improve visibility for the Chinese economy and perhaps marginally increase risk appetite for Chinese assets.

As the U.S. presidential election approaches, Sino-U.S. relations have once again become the focus of global attention. Issues such as Sino-U.S. trade, technology embargoes, and geopolitical conflicts are resurfacing, adding uncertainty to global markets. The results of the election and its impact on Sino-U.S. relations will be one of the crucial variables for the future trajectory of the Chinese equity markets.

AVERAGE ANNUAL TOTAL RETURNS ***(as of June 30, 2024)***

	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 10/1/2005
China Opportunities (gross of fees)	**5.01%**	**6.88%**	**9.63%**	**-16.03%**	**2.44%**	**3.77%**	**10.52%**
China Opportunities (net of fees)	**4.72%**	**6.26%**	**8.28%**	**-17.31%**	**1.14%**	**2.47%**	**9.13%**
MSCI China Index	7.09%	4.74%	-1.62%	-17.66%	-4.26%	1.39%	6.02%

Past performance is not necessarily indicative of future results. Performance is historical and includes the reinvestment of dividends and other income. Unusually high returns may not be sustainable. The strategy invests 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. Net-of-fee composite returns are calculated using the highest model investment advisory fees applicable to portfolios within the composite. Advisory fees are disclosed in Part II of Form ADV.

Oberweis Asset Management, Inc. ("OAM") is an independent investment management firm that is not affiliated with any parent organization. The composite returns are comprised of all fully discretionary accounts with a minimum value of $5 million. Performance results, from 10-1-05 until 10-1-06 as well as 5-1-08 to present, are derived solely from the performance of the Oberweis China Opportunities Fund, a registered, open-end mutual fund, for which OAM serves as investment adviser. Accounts are dollar-weighted within the composite and reported in U.S. dollars.

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.

Oberweis Asset Management (Hong Kong) Limited ("OAMHK"), is a subsidiary of OAM and is organized under the laws of Hong Kong and licensed by the Hong Kong Securities and Futures Commission. OAMHK has entered into a sub-advisory agreement with OAM to provide research services and portfolio management with respect to OBCHX.

Oberweis Asset Management

CHINA OPPORTUNITIES
MARKET COMMENTARY

2Q 2024

Outlook

After decades of rapid development, the Chinese economy has reached an important crossroads. Factors such as population, real estate, and debt are exerting tremendous pressure on China's economic growth in the short run. The gradual approach to change taken by the Chinese government also means that China's structural transition period will take a considerable amount of time. However, the tail risks that were widely discussed in the first quarter – foremost that the Chinese economy could enter a deep recession – have significantly diminished. Even without large-scale fiscal and monetary stimulus, the Chinese economy has proven more resilient than expected, particularly in manufacturing and exports. This resilience, in part, stems from relatively successful supply-side reforms over the past few years, aimed at making China a higher-end manufacturing powerhouse. While this long-term goal seems strategically appropriate, the short-term pain it entails has kept pressure on equity prices. This means that a bull market at the stock market index level may be hard to see in the short term, but this is precisely when active investors can play a significant role. We firmly believe that after nearly 20 years of investing in Chinese equities, we are well situated to leverage our expertise to uncover investment opportunities during China's transition period and deliver returns that outperform the market for our investors.

With the real estate market finding its bottom under stimulus policies and the possibility of future rate cuts by the Federal Reserve, China now has more room to maneuver in addressing potential economic issues. Despite the short-term pressure, we remain positive on China's long-term growth outlook and, importantly, our ability to uncover undervalued opportunities, particularly at today's reasonable equity valuations. Chinese stock valuations are compelling, both in absolute terms and relative to those in other geographies. The MSCI China Index is trading at a P/E ratio of 9.3x forward 12-month estimates, compared with long-term average of 11.2x, with an estimated earnings growth rate of 12% in 2024 and 14% in 2025.

Our strategy will continue to focus on misunderstood companies undergoing positive fundamental changes when we believe such changes have not been fully understood by the market. It's rare that GDP is the primary determining factor in the success of most of our holdings. Instead, we look for niche-oriented companies whose success is more predicated on product success, market consolidation, regulatory changes, and the evolution of new markets in China. In the quarter, we found new ideas in information technology, renewable industrials and consumer discretionary. 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.

Portfolio Highlights

During the quarter, 99.8% of the portfolio was invested in 57 companies. The biggest performance contributors were energy, consumer staples and health care. On the contrary, our biggest performance detractors were communication services, industrials and consumer discretionary.

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.

Characteristic Definitions:

P/E (Price/Earnings Ratio): This is a measure of valuation. It relates the price of the stock to the earnings per share (EPS) of the company.

Forward P/E (Price to Earnings) Ratio: This is a measure of valuation. It divides the current share price of a company by the estimated future ("forward") earnings per share (EPS) of that company.

For more information please contact:
Brian K. Lee, Director of Marketing & Client Service
(800) 323-6166 | (630) 577-2321 | brian.lee@oberweis.net

Marc Carlson, Director Marketing & Client Service
(800) 323-6166 | (630) 577-2364 | marc.carlson@oberweis.net

Oberweis Asset Management, Inc.
3333 Warrenville Rd., Suite 500, Lisle, IL 60532