

OBERWEIS CHINA OPPORTUNITIES FUND MARKET COMMENTARY

3Q 2024

The Quarter in Review

In the third quarter, the Oberweis China Opportunities Fund returned 10.06% compared to 23.49% for the MSCI China Index. In the final week of the quarter, the Chinese government announced intent to provide major stimulus to support its weak economy. In response, Chinese equities experienced a historic surge, rising over 16% within a single week, although the gains were unevenly distributed. Companies best positioned to immediately benefit from the proposed stimulus, such as non-bank financial institutions (mainly state-owned enterprises, or SOEs), high-beta technology stocks and companies highly sensitive to the economic cycle (such as property developers), led the rally.

Our Fund is fundamentally driven and we identify companies with the potential to grow much faster than expectations through superior product offerings, new market opportunities or better business execution. Companies in our Fund are typically growing organically and less dependent on overall GDP growth. Their ability to beat expectations is tied to innovation and effective execution than broad-based economic growth.

This stock-level focus has proven effective over time. Over the last five years, the Fund's return has beaten the MSCI China Index by 163 basis points. Over the last 15 years, the Fund's return has outperformed by 210 basis points. However, sharp shifts in government policy can adversely affect returns in the short-term, which occurred in the third quarter. The companies best positioned for appreciation after the stimulus announcement were those with low valuations stemming from weak fundamentals, yielding a rally based on improved risk appetite and increased market liquidity. However, such companies rarely fit our investment strategy. Those companies that tend to be particularly sensitive to the economic cycle also fared well this quarter (again, not the type normally owned in our portfolio). We also have significant investments in Taiwan. Taiwan's innovative technology culture has helped cultivate growth stock ideas, while simultaneously offering a refuge from the mainland's economic malaise. However, this quarter our overweight in Taiwan hurt performance as mainland stocks rebounded more sharply. The bottom line is that our approach has worked exceptionally well over time, but an acute policy shift boosted valuations for many companies that are poor candidates for our process.

Market Environment

The Chinese economy has not stabilized and remains weak. The manufacturing and services PMI for September have shown a persistent decline, particularly the Caixin PMI index, which measures small and medium-sized enterprises. The Caixin manufacturing PMI hit a 14-month low, falling below the contractionary threshold of 50 to 49.3. The services PMI has also declined for several consecutive months, reaching a one-year low of 50.3. Domestic consumption in China remains sluggish, with only a 2.1% year-over-year (yoy) increase in August. Due to low domestic investment returns and constraints from local government debt, domestic investment grew by only 3.4% yoy in August. The real estate sector, which lies at the center of the economic crisis, experienced a 25% decline in sales yoy in the first eight months of 2024. Weak domestic demand continues to exert deflationary pressure in China, as evidenced by the Producer Price Index (PPI) declining by 1.8% in August and the Consumer Price Index (CPI) registering a modest increase of only 0.6%. This lack of demand has also resulted in a considerable drop in industrial profits, which fell by 17.8% year-on-year in August. The poor performance of the Chinese economy has prompted investors to significantly revise down their growth expectations, with Bloomberg economists lowering their consensus forecast for China's economic growth from 5% at the beginning of the quarter to 4.8%. Few believe that China can achieve its 5% economic growth target in the remaining months of the year.

AVERAGE ANNUAL TOTAL RETURNS (as of September 30, 2024)

	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)**	10.06%	16.49%	15.79%	-12.55%	2.47%	3.08%	8.99%	1.65%/1.65%
Oberweis China Opportunities Fund Investor Class (OBCHX)	9.94%	16.31%	15.61%	-12.73%	2.23%	2.83%	8.72%	1.91%/1.91%
MSCI China Net	23.49%	29.34%	23.89%	-5.56%	0.84%	3.41%	7.13%	

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.

*The gross expense ratio of expense off set arrangements and expense reimbursements was 1.91% and 1.65% for OBCHX and OCHIX, respectively. 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 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.

Market Environment (continued)

It is precisely the ongoing deterioration of the economic fundamentals that has prompted policymakers to take decisive measures to reverse the situation at the end of the quarter. On September 24, the central bank, the China Securities Regulatory Commission, and the Financial Regulatory Bureau held a joint press conference, during which a comprehensive package of measures aimed at stimulating the economy and the stock market was announced. This included a 20-basis point reduction in policy interest rates, a 50-basis point cut in existing mortgage rates, a 50-basis point decrease in the reserve requirement ratio, and the provision of 500 billion RMB in asset swap facilities to eligible financial institutions to encourage them to purchase stocks. The central bank governor also mentioned that China is considering the establishment of a market stabilization fund. Just two days later, the 24-member Politburo, the top decision-making body in China led by Xi Jinping, held an unexpected economic work meeting, during which it proposed more pro-growth policies, indicating a shift towards more aggressive fiscal policies and emphasizing consumption stimulation (rather than production) as a policy priority. For the first time, it also addressed the need to prevent further declines in housing prices. These two meetings clearly mark a shift in China's policy focus from emphasizing economic security to combating deflation. The market responded very positively to China's policy pivot, which triggered a frenzied rally in the final week of the quarter.

Outlook

Although the current measures are far from sufficient to reverse the downward trend in the economy, Chinese policymakers are expected to introduce more targeted fiscal policies in the coming months to prevent further deterioration, particularly in addressing local government debt and stimulating consumption. The current crisis in China is influenced not only by cyclical factors but also by structural issues. To effectively tackle the challenges confronting the Chinese economy, a comprehensive approach is necessary. This should include a range of accommodative monetary and fiscal policies designed to support households and local governments in restoring their balance sheets, as well as social reforms aimed at improving China's overall fertility rate and enhancing total factor productivity. Nonetheless, this policy shift holds significant implications for China's economic growth and the stock market. This suggests that policymakers are acknowledging the seriousness of the deflation problem and are dedicated to tackling the cyclical debt and real estate crises. As the Federal Reserve embarks on a series of interest rate cuts, China finds itself in a unique position to tackle its debt and property challenges. While these measures may not provide immediate solutions to long-term structural issues, such as an aging population, addressing cyclical problems will certainly help ease pressures on economic growth and foster a more conducive environment for confronting structural challenges.

Despite ongoing structural difficulties and geopolitical tensions, we are optimistic that the implementation of fiscal stimulus policies over the next one to two quarters will lead to a rebound in the Chinese economy from the current cycle's low point. Even after a frenzied week, the valuation of the Chinese stock market remains highly attractive. The MSCI China Index is currently trading at 10.3x forward 12-month price-to-earnings ratio, still below the ten-year average of 11.3x, with projected earnings growth of 14% and 14% in 2024 and 2025, respectively.

Fund Highlights

During the quarter, the Fund was 99.5% invested in 48 companies. The biggest performance contributors were consumer discretionary, financials and healthcare. On the contrary, our biggest performance detractors were energy, materials and utilities.

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.

Characteristic Definitions:

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:

Brett Pierson, Director, Head of National Key Accounts & Advisor Sales
(630) 577-2354 | brett.pierson@oberweis.net

Tom Labelle, Associate Director, National Key Accounts & Advisor Sales
(630)577-2367 | thomas.labelle@oberweis.net

Benjamin Krimmel, Vice President, National Key Accounts & Advisor Sales
(630)577-2358 | ben.krimmel@oberweis.net