CHINA OPPORTUNITIES MARKET COMMENTARY

4Q 2024

The Quarter in Review

For the quarter ending December 31, 2024, the Oberweis China Opportunities Composite returned -7.22% (-7.46% net of fees) compared to -7.67% for the MSCI China Index. For the year, the Composite returned 9.46% (8.38% net of fees), while the Index returned 19.42%. The dramatic shift in policy environment during 2024 presented significant challenges for investors focused on fundamental analysis. Notably, two major policy stimuli at the end of April and September triggered substantial market volatility, which had a notable impact on our relative investment performance. Despite these challenges, we maintain our belief that the market will ultimately revert to a value-discovery mechanism driven by corporate fundamentals. As China's policy framework stabilizes, we are confident that investment strategies based on in-depth research and focused on underestimated cash flow generation will once again generate alpha for investors.

The initial investor enthusiasm following China's September policy shift began to wane early in the fourth quarter. Last quarter's policy pivot signaled policymaker acknowledgment of the severity and urgency of China's deflationary issues. Although September's stimulus package has not fully reversed China's downward economic trend, it has provided some short-term support. Manufacturing PMI remained in expansion range for a three month period, from October to December, for the first time this year. The services PMI hit 52.2 in December, the second highest point of the year; property transaction volumes rose year-on-year in October and November, the first such increase since May 2023. These developments indicate that short-term policies have had some supportive effect on the economy. Despite this, domestic demand remains weak, with retail sales growing by only 3%, well below the 5% expected. Sluggish domestic demand continues to exert significant deflationary price pressure: the Producer Price Index (PPI) came in at -2.5% in November, marking the 26th consecutive monthly decline; the Consumer Price Index (CPI) hovered around 0.2%, within the 0%-1% range reported throughout the year. Consequently, profits of industrial enterprises fell by 7.3% in November due to deflationary pricing pressure. Given that the challenges confronting China's economy encompass both structural and cyclical elements, solutions will not come overnight. Policymakers will need to address these issues through a combination of short-term stimulus measures and long-term reforms.

The macroeconomic downturn is also evident in the fundamentals of Chinese firms. Revenue growth for companies listed in the MSCI China Index extended a streak of negative quarters that began in Q3 2022 while constituents of the CSI 300 Index have experienced four consecutive quarters of negative revenue growth. Despite already low expectations, Chinese firms have underperformed for 13 straight quarters. Over half (53%) of these companies missed market forecasts, while only about a quarter (29%) exceeded them. This trend underscores the ongoing challenges faced by many businesses amid economic headwinds. There is a noticeable disparity across industries, with certain sectors performing significantly better than others. Financials, discretionary consumption, and communication services have demonstrated strong competitive advantages, exemplified by leading firms like Pinduoduo and Pop Mart. These companies have managed to maintain robust performance despite broader market difficulties, underscoring their resilience and strategic positioning. The weak macroeconomic growth and divergent sector performance present fundamental-focused investors with opportunities to identify companies that can outperform the index. By focusing on companies with resilient business models and strong competitive positions, we can uncover undervalued assets poised for growth amidst challenging market conditions.

AVERAGE ANNUAL TOTAL RETURNS ***(as of December 31, 2024)***

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 10/1/2005
China Opportunities (gross of fees)	**-7.22%**	**9.46%**	**-12.51%**	**0.47%**	**4.53%**	**10.37%**
China Opportunities (net of fees)	**-7.46%**	**8.38%**	**-13.39%**	**-0.53%**	**3.50%**	**9.27%**
MSCI China Index	-7.67%	19.42%	-6.10%	-3.44%	1.88%	6.59%

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.

The Quarter in Review (continued)

For the foreseeable future, shifts in government policy will remain one of the primary drivers of the market. Post COVID-19, the role of policy in China's economy has been particularly pronounced, especially following the end of lockdowns at the end of 2022. As mentioned above, the most recent significant policy shift occurred in late September with a package of new stimulus measures, highlighting policymakers' recognition of the seriousness of the deflationary challenges. However, the strength and pace of policy implementation since October have lagged behind market expectations, indicating a lack of political consensus within the government on how to effectively address the current economic crisis. As a result, policies are being implemented gradually and reactively rather than through long-term strategic planning, particularly concerning reforms in population structure, social welfare, and fiscal systems. Based on observations over the past few years of China's evolving policy framework, several conclusions can be drawn:

- Lack of Political Consensus for Systemic Reforms: China currently lacks broad political consensus needed for systemic reforms aimed at addressing medium-to-long term issues such as demographic shifts and fiscal imbalances.
- Economic Slowdown Tolerance: Policymakers' tolerance for economic slowdown has become clearer; they act to stabilize the economy and markets when employment and social stability are threatened, a phenomenon known as the "China put."
- Policy Orientation Amid Geopolitical Conflicts: Amid heightened geopolitical tensions, China's policy orientation is increasingly focused on technological self-reliance and fostering domestic consumption.

A clear policy framework and a stabilizing macroeconomic environment create favorable conditions for investors to identify investment opportunities within a relatively stable market, thereby achieving attractive returns. Moreover, as policy support and technological advancements spur industrial structure optimization and upgrades, we are likely to witness the emergence of more high-quality enterprises with significant investment potential awaiting discovery.

Outlook

Looking ahead to 2025, China's economy indeed faces considerable challenges. Internal factors such as an aging population, high debt levels, and deflationary pressures are compounded by external uncertainties, including geopolitical tensions, adding to the complexity of the economic landscape. Exports have been a critical engine for China's economic growth in recent years. However, changes in the global trade environment, particularly potential new tariffs from the U.S., present a more complex situation for China's export sector. Should President-elect Trump impose additional tariffs, it would place extra strain on China's exports. While details on the tariff increases and their implementation timelines remain unclear, it is anticipated that such trade frictions will further complicate China's export landscape.

To counteract the slowdown in export growth, China is considering a new round of comprehensive stimulus measures, including both fiscal and monetary policies, aimed at stabilizing economic growth and boosting the domestic market. Notably, after several years of economic volatility, the government's capability to manage complex economic issues has improved significantly, allowing for more precise and effective policy formulation and adjustment. Although a swift rebound in economic growth is not expected in the short term, current data suggests that the Chinese economy is beginning to stabilize. The Manufacturing PMI has remained in the expansion zone for three consecutive months. The Services PMI reached higher levels during the year. Property transaction volumes showed year-on-year growth. This relatively stable economic environment, despite moderate growth rates, offers stock pickers more opportunities to uncover promising investment targets. Given China's below-average equity valuations, even a modest surprise can lead to substantial returns. Moreover, policymakers' focus on technological self-reliance and fostering domestic consumption may also create new avenues for investment.

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. Chinese equities are now trading at cheap valuations. The forward 12-month price-to-earnings ratio stands at 9.96x, with projected earnings growth of 16% and 9% in 2024 and 2025 respectively. This is in comparison to the 10-year historical average of 11.3x.

Regarding our investment strategy, we continue to focus on companies undergoing positive fundamental changes that we believe have not yet been fully recognized by the market. We seek out niche-oriented companies whose success is driven by factors such as product success, technological innovation, regulatory changes, and the emergence of new markets in China. In the quarter, we identified promising opportunities in the information technology, consumer discretionary, and industrial sectors. Generally, these companies are leading players in niche markets where growth is more dependent on product acceptance than overall GDP growth. Many of these companies benefit from the ongoing structural economic and social transformations in China. Our approach allows us to uncover undervalued opportunities that are poised for growth due to their unique positioning within evolving market dynamics. By focusing on companies that are beneficiaries of China's ongoing reforms and emerging trends, we aim to generate alpha for our investors.

r

Oberweis Asset Management

CHINA OPPORTUNITIES
MARKET COMMENTARY

4Q 2024

Portfolio Highlights

During the quarter, the portfolio was 99.9% invested in 50 companies. The biggest performance contributors were consumer discretionary, information technology and industrials.

On the contrary, our biggest performance detractors were financials, health care, and communication services.

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:

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
(630) 577-2321 | brian.lee@oberweis.net

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