Oberweis
Asset Management

CHINA OPPORTUNITIES MARKET COMMENTARY

3Q 2026

The Quarter in Review

In the third quarter, the Oberweis China Opportunities Composite returned -10.89% (-11.12% net of fees) compared to 3.66% for the MSCI China Index, underperforming by 1,455 basis points (1,478 basis points net of fees). On a year-to-date basis, the Composite returned 23.19% (22.29% net of fees) compared to -11.86% for the MSCI China Index, outperforming by 3,505 basis points (3,415 basis points net of fees). While the 3rd quarter proved to be a challenging one, the strategy remains on track for an exceptional year.

Key investments in companies positioned to benefit from AI drove the strategy's strong returns in the first half of 2026. In the third quarter, however, those same companies retreated amid a compression of AI stock multiples. During a period of massive and disruptive innovation, it is common to have a divergence of views as to the magnitude, duration, and consequences of such change. In our world, that manifests as volatility.

The correction in our AI-related holdings was broad-based, but particularly acute for custom silicon providers and optical networking suppliers. Following an extraordinarily strong second quarter, market scrutiny shifted from capacity constraints to near-term capital expenditure ROI, triggering a healthy but severe valuation reset. Our high-conviction positions in AI hardware supply chain leaders – the cornerstone of our Q2 gains – bore the brunt of institutional profit-taking. Even though we systematically reduced our gross exposure to high-multiple AI names heading into July, the velocity of the sector-wide derating overwhelmed our defensive rebalancing. All that said, we remain unrelenting bulls on the long-term opportunities and growth potential of the segment of our portfolio that remains invested in AI.

Turning to the broader market backdrop, China's economy exhibited a sharp internal-external bifurcation in the third quarter. Externally, demand for Chinese goods proved resilient in the short term, fueled primarily by a surging global technology supply chain that drove August exports up 25.0% year-over-year and kept monthly trade surpluses comfortably above the $100 billion mark. However, this export-led growth is further heightening geo-economic friction with key trading partners, most notably the European Union. As China's second-largest trading partner, the EU faces a persistently lopsided trade balance, with quarterly trade deficits hovering near record highs of approximately €90 billion. This profound imbalance is exerting mounting political pressure within EU member states, significantly escalating the risk of defensive tariffs across critical sectors such as electric vehicles and industrial hardware.

More critically, this external resilience has been insufficient to offset the deep-seated deterioration in China's domestic economy. Internal demand remains firmly entrenched in a downward channel with no signs of stabilization: August retail sales growth decelerated to a sluggish 0.4% year-over-year, while fixed-asset investment contracted by 7.2% – reflecting a toxic combination of anemic consumption and rapidly slowing capital expenditures. In response, policymakers shifted toward targeted, quasi-fiscal support through quarter-end, cutting the Pledged Supplemental Lending (PSL) rate by 25 bps to 1.50% and introducing residential mortgage interest subsidies. While these measures provide low-cost funding for urban renewal and directly ease household debt-servicing burdens, monetary and quasi-fiscal tools alone remain ill-equipped to generate a self-sustaining consumption recovery without substantial, direct fiscal transfers. Looking ahead, profound structural headwinds—namely, irreversible demographic decline and deeply elevated household leverage—will continue to constrain the medium-to-long-term outlook for both the Chinese consumer and the broader real estate market.

AVERAGE ANNUAL TOTAL RETURNS *(as of September 30, 2026)*

	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 10/1/2005
China Opportunities (gross of fees)	**-10.89%**	**23.19%**	**18.35%**	**24.38%**	**3.14%**	**10.38%**	**12.45%**
China Opportunities (net of fees)	**-11.12%**	**22.29%**	**17.19%**	**23.16%**	**2.12%**	**9.28%**	**11.33%**
MSCI China Index	3.66%	-11.86%	-18.37%	9.76%	-2.10%	3.36%	6.76%

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.

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Outlook

Looking ahead to the fourth quarter of 2026 and into 2027, we maintain a constructively disciplined outlook. While short-term macroeconomic noise and sector-specific resets may persist, we believe the severe valuation digestion experienced in Q3 has laid the groundwork for a healthier, fundamentals-driven market environment. On a global level, the macroeconomic landscape remains defined by a stark divergence. Across major developed markets, sticky inflation and restrictive policy regimes present a demanding environment where elevated discount rates have effectively eliminated liquidity-driven multiple expansion. Conversely, China continues to grapple with entrenched deflationary pressures, compounded by the structural headwinds of an aging population and high debt leverage. Despite these contrasting macro regimes, both environments converge on a singular investment mandate: a strict filter for balance sheet quality and durable earnings growth. Whether insulating against higher borrowing costs in the West or navigating structural deceleration in China, companies possessing genuine pricing power, low debt burdens, and robust organic cash generation will increasingly separate themselves from broader market noise.

At the sector level, we view the recent AI pullback as a healthy transition from sentiment-driven multiple expansion to execution-driven earnings delivery. As initial hyper-scale buildouts mature, 2027 market leadership will favor companies with proven capex ROI, mission-critical power and grid infrastructure, and software platforms effectively monetizing AI integration. Outside of technology, we see compelling risk-reward in quality compounders with fortress balance sheets and durable cash flows equipped to navigate a higher-rate regime. During the quarter's volatility, we actively recalibrated our positioning – trimming high-multiple hardware holdings while selectively accumulating core infrastructure enablers and self-funding compounders.

After the recent pullback, the valuation of the Chinese stock market appears more attractive. The MSCI China Index is currently trading at 10x forward 12-month price-to-earnings ratio, with projected earnings growth of 17% and 18% in 2026 and 2027, respectively.

Portfolio Highlights

During the quarter, the portfolio was 99.3% invested in 46 companies. The biggest performance contributors were healthcare, communication services, and consumer staples. On the contrary, our biggest performance detractors were information technology, industrials, 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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