OSTERWEIS

FUNDS

October 25, 2024

Dear Shareholder,

Please see below for a discussion of the Osterweis Opportunity Fund's[1] recent performance and our near-to-medium term market outlook.

Performance[2] (as of September 30, 2024)

	QTR	1 Year	3 Year	5 Year	10 Year	Since Inception (10/1/2012)
OSTGX	9.52	41.37	1.16	16.15	14.48	15.13
Russell 2000 Growth Index	8.41	27.66	-0.35	8.82	8.95	10.31

All figures in this table reflect percentages. Periods longer than 1 one year are annualized.

Market Recap

The Osterweis Opportunity Fund returned 9.52% during the third quarter, once again outperforming the Russell 2000 Growth Index, which returned 8.41%. Over the trailing 12-months, the fund outperformed its benchmark by over 13%.

Equities had a solid third quarter, as markets rallied ahead of the Fed's September rate cut. It appears we may be in a Goldilocks environment of stable employment/growth with falling inflation. This should allow the Fed to cut rates while at the same time not create offsetting negative economic

[1] *Formerly the Osterweis Emerging Opportunity Fund*

[2] *Performance data quoted represent past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be higher or lower than the performance quoted. Performance data current to the most recent month end may be obtained by calling (866) 236-0050. An investment should not be made solely on returns. Gross/Net expense ratio as of March 31, 2024: 1.20% / 1.12%. The Adviser has contractually agreed to waive certain fees through June 30, 2025. The net expense ratio is applicable to investors. See additional disclosures at the end of the letter.*

effects. Still, as we discuss below, the majority of our best performers in the third quarter were companies that are experiencing strong secular growth that is independent of the macro environment.

Portfolio Attribution

Security Selection

Security selection drove our outperformance in the third quarter. Our stock picks within Consumer Discretionary, Health Care, Industrials, and Information Technology generated the most relative value, each delivering higher returns than their counterparts in the index. However, our stock selections in Consumer Staples worked against us.

One of our largest contributors within the Consumer Discretionary sector was Boot Barn, the Western wear retailer. The company's strong second quarter results reinforced our thesis that Boot Barn's negative comps in 2022 and 2023 were a function of diminished Covid consumption patterns rather than a genuine decline in demand. Before the pandemic, Boot Barn consistently grew same-store sales ~6%, and we believe the company can return to that growth rate, as well as 15% unit growth and 20%+ earnings per share growth. This level of earnings growth is not in consensus estimates and should lead to continued earnings upside and multiple expansion from here.

On the downside, our biggest detractor within Consumer Discretionary was Skechers, the footwear company. Skechers was a top performer in the second quarter, so we are not surprised it took a breather. It is also not a rate-sensitive company, so it did not benefit from the Fed's September cut, which was a large driver of Consumer Discretionary returns in the quarter. We remain confident that the company will likely continue to deliver double-digit revenue growth through innovation, international expansion, and its direct-to-consumer channel, which, combined with the company's prolific cash generation, should drive significant returns over the coming years.

Within Health Care, the biggest contributor during the quarter was Procept Biorobotics, a provider of surgical robotic solutions to treat BPH (enlarged prostate). The third quarter returns were driven by both strong Q2 financials and enthusiasm about a new product rollout in September featuring several important enhancements, including AI-assisted treatment planning and easier setup. The new robot should help drive a potential upgrade cycle from the current generation device as well as new business, all at a price premium.

One of our biggest detractors in the sector was RxSight, a maker of adjustable lenses for cataracts, which had a poor end to the quarter largely due to macroeconomic concerns. Their high-end lens is a cash pay product, and there have been several datapoints suggesting consumer spending may be in decline. However, the demographic to which RxSight caters (affluent baby boomers) seems to be doing well, so we do not see business momentum being affected at this time. With only 3% share of the market, RxSight remains early in its adoption cycle, and we have maintained our position.

Our Industrials also outperformed this quarter, led by standouts Modine Manufacturing and FTAI Aviation. Modine, a maker of heating and cooling transfer systems, is experiencing robust growth in its data center business. The company recently increased guidance from 50-60% to 80-90% growth due to increased investment from two very large technology companies, also known as hyperscalers, which are aggressively investing in AI infrastructure. Modine provides large air coolers that are more energy efficient, which is a major concern for the industry as it is very energy intensive. Modine anticipates expects this business segment to double over the next few years to $1 billion in annual revenue.

FTAI Aviation, a lessor of airplanes and engines, was once again one of our top contributors within Industrials. As we have discussed previously, management has found a profitable niche servicing CFM56 engines, one of the most popular engines flying today, and we continue to be impressed by the company's execution. FTAI delivered strong Q2 results and increased its 2026 EBITDA targets, and it is well positioned for continued growth as it awaits FAA approval to begin selling its own components (rather than reselling parts from other manufacturers), which could potentially double the company's profitability per unit.

Our biggest laggard in Industrials was Sensata Technologies, a maker of sensors for automobiles, trucks, and industrial machinery, which performed poorly during the quarter due to concerns around auto sales. Monthly auto sales have been sluggish since July and some manufacturers have too much inventory, which will likely cause production cuts and thus negatively affect suppliers like Sensata. However, the company has demonstrated in recent quarters that its revenue-per-car has continued to increase, which suggests our market share gain thesis is playing out as expected.

Our stock selection in Information Technology was also additive during the third quarter, led by two of our investments in software verticals, Guidewire Software and Clearwater Analytics. We like investing in vertical software companies, as they tend to have resilient growth profiles, strong margins due to efficient sales and marketing, and data advantages that align well with artificial intelligence applications.

Guidewire provides mission-critical software such as policy, billings, and claims to property and casualty insurance companies. The company reported 19% fully ramped average recurring revenue growth, accelerating from 17% last year, along with strong incremental profitability. We believe Guidewire is in a favorable position for two main reasons. First, the industry is migrating from on-premise to cloud software, and Guidewire is leading the transformation. Second, the company benefits from the growth of higher insurance premiums as insurers raise prices to offset the higher cost of claims. With revenues approaching $1 billion, we believe Guidewire has a path to $2.5 billion in revenues if it can increase its fees from ~10 to ~40 basis points of industry-direct written premium.

Clearwater Analytics, a leading provider of investment accounting and reporting solutions, also posted strong results. Annual recurring revenue accelerated to 22% from 19% last quarter, while EBITDA grew 35%. The business is exceptionally sticky, as evidenced by its 99% gross revenue retention. New products are adding an incrementally higher contribution to bookings as the company progresses towards its goal of increasing net revenue retention from 110% to 115%.

The main detractor in IT was JFrog, a development operations software company. The firm reported its second consecutive quarter of disappointing results due to slower growth from smaller, monthly customers as well as larger customers, as it transitions to selling bigger, but more complicated deals with additional security use cases. We sold the position to focus on companies with stronger tailwinds and better execution.

Consumer Staples was the largest net drag on relative performance in the third quarter. Our biggest detractor was e.l.f. Cosmetics, which reported that U.S. channel sales (roughly half of the company's revenue) decelerated to low double digits from 20%. We remain confident in e.l.f. as it continues to launch innovative new products and grow market share, generating over 100% of the entire category sales growth in the quarter. In addition, management has said that its digital and international channels continue to grow faster than the U.S. International sales are just 16% of revenues today, and we believe they will trend towards 50% or higher over time.

Sector Allocation

Sector allocation had a negligible effect on our relative performance during the third quarter, as our value adds and detractors offset one another. Our zero exposure to Financials detracted the most, as the sector outperformed the overall index. Our overweight to Real Estate was additive, as that sector outperformed the index, as was our underweight to Energy, which struggled versus the index.

Portfolio Positioning & Outlook

Economic news in the third quarter was largely favorable, with unemployment remaining at low levels and interest rates declining. Our near-to-medium term outlook is constructive, as we believe the labor market should remain reasonably stable as the Fed cuts rates, albeit at a gradual pace.

As mentioned above, falling rates are helpful for a subset of small caps, particularly cyclical businesses, companies that are reinvesting to grow, and/or those that are exposed to floating rate debt. We have some exposure here but believe that our companies are attractive irrespective of whether rates come down further. We do expect lower rates to improve sentiment for the asset class, however, which could drive up valuations over time.

We thank you for your continued confidence in our management.

Regards,

Jim Callinan
Lead Portfolio Manager

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Performance prior to December 1, 2016 is that of another investment vehicle (the "Predecessor Fund") before the commencement of the Fund's operations. The Predecessor Fund was converted into the Fund on November 30, 2016. The Predecessor Fund's performance shown includes the deduction of the Predecessor Fund's actual operating expenses. In addition, the Predecessor Fund's performance shown has been recalculated using the management fee that applies to the Fund, which has the effect of reducing the Predecessor Fund's performance. The Predecessor Fund was not a registered mutual fund and so was not subject to the same operating expenses or investment and tax restrictions as the Fund. If it had been, the Predecessor Fund's performance may have been lower.

Mutual Fund investing involves risk. Principal loss is possible. The Osterweis Opportunity Fund may invest in unseasoned companies, which involve additional risks such as abrupt or erratic price movements. The Fund may invest in small and mid-sized companies, which may involve greater

volatility than large-sized companies. The Fund may invest in IPOs and unseasoned companies that are in the early stages of their development and may pose more risk compared to more established companies. The Fund may invest in ETFs, which involve risks that do not apply to conventional funds. Higher turnover rates may result in increased transaction costs, which could impact performance. From time to time, the Fund may have concentrated positions in one or more sectors subjecting the Fund to sector emphasis risk. The Fund may invest in foreign and emerging market securities, which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks may increase for emerging markets.

The Russell 2000 Growth Index is a market capitalization weighted index representing those stocks within the approximately 2000 smallest companies in the universe of U.S. equities that exhibit growth characteristics. This index does not incur expenses, is not available for investment and includes the reinvestment of dividends.

A Goldilocks economy is not too hot nor too cold but just right, to steal a line from the popular children's story "Goldilocks and the Three Bears". The term describes an ideal state for an economic system.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock.

EBITDA is an acronym for Earnings Before Interest, Taxes, Depreciation and Amortization.

A basis point is a unit that is equal to 1/100th of 1%.

References to specific companies, market sectors, or investment themes herein do not constitute recommendations to buy or sell any particular securities.

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Complete holdings of all Osterweis mutual funds ("Funds") are generally available ten business days following quarter end. Holdings and sector allocations may change at any time due to ongoing portfolio management. Fund holdings as of the most recent quarter end are available here: https://www.osterweis.com/files/OSTGX_Holdings.pdf

The Osterweis Funds are available by prospectus only. The Funds' investment objectives, risks, charges and expenses must be considered carefully before investing. The summary and statutory prospectuses contain this and other important information about the Funds. You may obtain a summary or statutory prospectus by calling toll free at (866) 236-0050, or by visiting osterweis.com. *Please read the prospectus carefully before investing to ensure the Fund is appropriate for your goals and risk tolerance.*

Osterweis Capital Management is the adviser to the Osterweis Funds, which are distributed by Quasar Distributors, LLC. [OCMI-627909-2024-10-22]