

# OSTERWEIS

FUNDS

January 12, 2024

Dear Shareholder,

During the fourth quarter of 2023, the Osterweis Strategic Income Fund (the Fund) generated a total return of 5.14% compared to 6.82% for the Bloomberg U.S. Aggregate Bond Index (Agg). The Fund's annualized total returns over the one-year, five-year, and ten-year periods ending December 31, 2023 were 12.30%, 5.06%, and 4.14%, respectively, compared to 5.53%, 1.10%, and 1.81% for the Agg over the same periods.<sup>1</sup>

Investor sentiment improved substantially in the fourth quarter, as the Fed finally began to relax its tightening policy. First, in September it announced it would pause its hiking program, and then in December it went a step further, suggesting it may cut rates as much as three times in 2024. Not surprisingly, this was welcome (and somewhat unexpected) news, which triggered a strong rally across most fixed income and equity markets.

Despite the Fed's shift, we believe it is still too soon to declare victory over inflation. The economy has remained remarkably healthy in the face of elevated rates, but the flip side of a healthy economy is that inflationary pressures recede more slowly, which may cause the Fed to delay cuts, possibly disappointing market expectations. In fact, the Atlanta Fed's Sticky CPI gauge is at 4.75%, well over the Fed's 2% target. As we discuss in the attached Outlook, we feel the Fed is still walking a fine line. Cutting rates too early could trigger a resurgence in inflation, as it could add too much fuel to an already healthy economy. On the other hand, leaving rates high for too long could have the opposite effect.

Given this uncertainty, we are sticking with our positioning in shorter dated, mostly non-investment grade bonds, as well as a healthy allocation to cash and equivalents. The inverted yield curve allows us to capture yields that almost match the general high yield market while providing a better measure of protection from any selloff caused by a weakening economy or other surprises. Should the market experience a correction, we will take advantage of the repricing by layering longer dated bonds at more attractive yields. If markets maintain the status quo, we will continue to capture most of the available yield.

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<sup>1</sup> 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. The Fund's gross expense ratio was 0.86% as of March 31, 2023.

We also wanted to let you know that John Sheehan has joined our team as a portfolio manager. John has over 25 years' experience, primarily in investment grade corporate bonds, having spent the past six years at Osterweis and over 20 years at Citibank working in syndicate and sales. He is a bottom-up security selector who knows our philosophy well from his time on the Total Return team and will fit right in.

Thank you for your continued confidence in our team.

Sincerely,



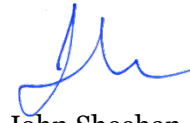
Carl Kaufman



Bradley Kane



Craig Manchuck



John Sheehan

Enclosure

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**Mutual Fund investing involves risk. Principal loss is possible. The Osterweis Strategic Income Fund may invest in debt securities that are un-rated or rated below investment grade. Lower-rated securities may present an increased possibility of default, price volatility or illiquidity compared to higher-rated securities. 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. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Small- and mid-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies. 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 municipal securities which are subject to the risk of default.**

The Bloomberg U.S. Aggregate Bond Index (Agg) is widely regarded as a standard for measuring U.S. investment grade bond market performance. This index includes reinvestment of dividends and/or interest income. The index does not incur expenses and is not available for investment.

The Sticky Price Index sorts the components of the consumer price index (CPI) into either flexible or sticky (slow to change) categories based on the frequency of their price adjustment.

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*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](http://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-479893-2024-01-11]