

# Osterweis Strategic Investment Fund (OSTVX)

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In celebration of the May 2021 10th anniversary of the Mutual Fund Observer, we are examining the achievements, a decade on, to the four funds highlighted in our first-ever issue. The Osterweis Strategic Investment Fund, which we categorized as a “most intriguing new fund” back then remains an under-covered gem. A “star in the shadows.”

## What they do

Osterweis starts with a strategic allocation that’s 50% equities and 50% bonds. In bull markets, they can increase the equity exposure to as high as 75%. In bear markets, they can drop it to as low as 25%. Their argument is that “Over long periods of time, we believe a static balanced allocation of 50% equities and 50% fixed income has the potential to provide investors with returns rivaling an equity-only portfolio but with less principal risk, lower volatility, and greater income.” Because they don’t like playing by other people’s rules, the Osterweis team does not automatically favor intermediate-term, investment grade bonds in the portfolio. Since 2017, the fund’s equity exposure has ranged from about 60–70%.

## How they’ve done

Over the past decade, the fund has averaged 9% annual returns, which does match the “equity-like” promise, at least if you use the stock market’s long-term average of about 10% per year. In the past decade the market’s return has been higher (13.7% for the Total Stock Market Index, 13.9% for the S&P 500) but both of those have recorded multiple 20% declines. It’s had substantially lower volatility than an all-equity portfolio, though its risk-adjusted returns are slightly lower.

OSTVX has higher returns, lower volatility, and higher risk-adjusted returns (Sharpe ratio, Sortino ratio, Martin ratio, Ulcer index) than its Lipper Flexible Portfolio peer group. It’s a top 10 fund over the past decade for both total returns and risk-adjusted returns.

The fund has earned a four-star rating from Morningstar, as well as the equivalent of a four-star rating from MFO.

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## What we liked

From our May 2011 profile: “Well done, [flexible] funds decrease a portfolio’s volatility, instill discipline in the allocation of assets between classes, and reduce the chance of self-destructive bipolar investing on our parts. Given reasonable expenses, outstanding management, and a long, solid track record, the Osterweis Strategic Investment Fund warrants a place on any investor’s due-diligence short list.”

Then and now, we celebrate independent thinking, the ability to zig when the market zags, and an intense sensitivity to the risks they might expose their investors to.

## What’s changed

The core of the management team remains from inception, but there’s but substantial turnover in the team with six of the original eight managers leaving. The most significant additions to the team are Jim Callinan, a phenomenal small cap manager, and Larry Cordisco, formerly of the Meridian Funds.

According to their April 21, 2021 shareholder letter, they remain cautious...but cautiously optimistic. “We remain constructive on the market and are gradually increasing our equity exposure to cyclical businesses while maintaining positions in long-term secular winners. In fixed income, we continue to take a cautious approach. Rather than stretching for yield, we are focused on higher quality companies within the non-investment grade space, and we favor shorter to medium maturities.”

## The administrative stuff

Osterweis Strategic Investment has \$165 million in assets and an expense ratio of 1.21%. The minimum initial investment is \$5,000.

## Other funds we’ve reviewed in the category

**Bruce** (BRUFX, outstanding fund, sort of a black box, both managers have been onboard for 38 years which implies the need for succession planning), **KL Allocation** (GAVAX, invests in “knowledge leaders,” lighter equity allocation but greater international exposure), **FPA Crescent** (FPACX, the celebrated “free-range chicken” of the investing world, lead manager Steve Romick can go anywhere in the capital structure—stocks, preferred, bonds, loans—in best of the best risk-adjusted returns, an absolute-value approach that will lead it into cash, the largest holding in my non-retirement portfolio) and **Leuthold Core Investment** (LCORX, also available as an ETF, a rigorously quant-driven fund that starts with getting the asset allocation right, avoids emotion, and offers exposure to unconventional assets including equity hedges, commodities and MBS bonds).

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# OSTERWEIS GROWTH & INCOME FUND

*Formerly the Strategic Investment Fund*

Mutual Fund Observer

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*The Fund's average annual total return for the one year, five year, ten-year, and since-inception periods ending 9/30/2021 were as follows:*

	1 Yr.	5 Yr.	10 Yr.	Since Inception (8/31/2010)
OSTVX	21.58%	11.00%	10.78%	10.17%
60% S&P 500 40% Bloomberg U.S. Aggregate Blend	16.92%	11.43%	11.24%	10.91%
S&P 500 Index	30.00%	16.90%	16.63%	15.90%
Bloomberg U.S. Aggregate Bond Index	-0.90%	2.94%	3.01%	3.20%

Gross expense ratio as of 6/30/2021: 0.94%.

*Performance data quoted represents past performance and 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 lower or higher than the performance quoted above. Performance data current to the most recent month end may be obtained by calling toll-free (866) 236-0050.*

Opinions expressed in the article are those of the author and portfolio manager. These opinions are subject to change at any time, are not guaranteed and should not be considered investment advice.

*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 visiting [www.osterweis.com/statpro](http://www.osterweis.com/statpro). Please read the prospectus carefully before investing to ensure the Fund is appropriate for your goals and risk tolerance.*

**Mutual fund investing involves risk. Principal loss is possible. The Osterweis Growth & Income Fund may invest in small- and mid-capitalization companies, which tend to have limited liquidity and greater price volatility than large-capitalization companies. 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 Fund may invest in Master Limited Partnerships, which involve risk related to energy prices, demand and changes in tax code. The 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. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. 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 also make investments in derivatives that may involve certain costs and risks such as those related to liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Leverage may cause an increase or decrease in the value of the portfolio securities to be magnified and the Fund to be more volatile than if leverage was not used. Investments in preferred securities typically have an inverse relationship with changes in the prevailing interest rate. Investments in asset-backed and mortgage-backed securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments.**

The 60/40 blend is composed of 60% Standard & Poor's 500 Index (S&P) and 40% Bloomberg U.S. Aggregate Bond Index (BC Agg) and assumes monthly rebalancing. The S&P is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. The BC Agg is an unmanaged index that is widely regarded as a standard for measuring U.S. investment grade bond market performance. These indices do not incur expenses and are not available for investment. These indices include reinvestment of dividends and/or interest income.

The Vanguard Total Stock Market Index (VTSMX) seeks to track the investment results of the CRSP U.S. Total Market Index, comprising approximately 100% of the investable U.S. stock market. Its companies, which represent a cross-section of market capitalizations, primarily trade on the New York Stock Exchange and NASDAQ.

While the fund is no-load, management fees and other expenses still apply. Please refer to the prospectus for more information.

The Fund was rated 4 Stars against 653 funds Overall, 4 Stars against 653 funds over 3 years, 4 Stars against 596 funds over 5 years, and 4 Stars against 427 funds over 10 years in the Allocation--50% to 70% Equity category based on total returns as of 9/30/2021.

The Morningstar Rating™ for funds, or “star rating,” is calculated for mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period has the greatest impact because it is included in all three rating periods.

The Mutual Fund Observer (MFO) Rating is the principal performance ranking metric used in the MFO rating system and found across most of the MFO Premium pages. It ranks a fund's performance based on risk adjusted return, specifically Martin Ratio, relative to other funds in same investment category over same evaluation period. Evaluation periods include lifetime, 20, 10, 5, 3, and 1 year, plus full, down, and up market cycles, as applicable. Funds in the top 20 percentile (top quintile) are assigned a 5 for "Best," while those in bottom 20 percentile (bottom quintile) are assigned a 1 for "Worst." MFO “Great Owl” distinction is assigned to funds that have earned top performance rank for evaluation periods 3, 5, 10, and 20 years, as applicable.

Investment grade includes bonds with high and medium credit quality assigned by a rating agency.

The Sharpe Ratio represents the added value over the risk-free rate per unit of volatility risk.

The Sortino ratio is computed by subtracting the return of the risk-free rate from the portfolio return and then dividing by the downside risk of the portfolio. The downside risk is the standard deviation of the returns falling below the risk-free rate.

The Ulcer Index (UI) is a technical indicator that measures downside risk in terms of both the depth and duration of price declines. The formula for the Martin Ratio is Total Return minus Risk-free Return, divided by the Ulcer Index.

Yield is the income return on an investment, such as the interest or dividends received from holding a particular security.

References to other mutual funds should not be considered an offer of these securities.

**Earnings growth is not representative of the Fund's future performance.**

It is not possible to directly invest in an index.

Osterweis Capital Management is the adviser to the Osterweis Funds, which are distributed by Quasar Distributors, LLC. [OSTE-20210503-0206]