

# Osterweis Growth and Income Fund (formerly Osterweis Strategic Investment Fund, OSTVX)

by David Snowball



*Osterweis has done  
a remarkably good  
job for a remarkably  
long while.*

**Objective and strategy** The fund pursues the reassuring objective of long-term total returns and capital preservation. 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" achieved through the compounding of reasonable gains and the avoidance of major losses.

Both equity and debt are largely unconstrained, that is, the managers can buy pretty much anything, anywhere. That means that the fixed-income portfolio might at one point contain a large exposure to high-yield securities and, at another, to Treasuries. The equity portfolio is composed of companies with sustainable competitive advantages, particularly those likely to deliver consistent dividend growth, whose stocks are undervalued or out-of-favor.

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%. They currently hold 40 stocks, the vast majority of which Morningstar recognizes as having a defensible economic "moat."

**Adviser** Osterweis Capital Management. Osterweis Capital Management was founded in 1983 by John Osterweis to manage money for high-net-worth individuals, foundations, and endowments. The firm has 58 employees and \$7.7 billion in assets under management in 2021. They manage both individually managed portfolios and five mutual funds. Osterweis once managed hedge funds but concluded that such vehicles served their investors poorly and so wound them down in 2012. The firm is privately held, mostly by its employees.

**Managers** The fund is managed by a team of five portfolio managers. Founder John Osterweis and co-CIO Carl Kaufman remain from the team of eight portfolio managers that launched the fund. Eddy Vataru joined Osterweis in 2016 and is an

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investment-grade fixed-income specialist. Larry Cordisco and Jim Callinan are both equity guys with distinguished careers at other shops. Mr. Cordisco was a co-manager for **Meridian Contrarian Fund** (2012-18) and, for almost a decade before that, one of the fund's equity analysts. Mr. Callinan has one of the longest and most distinguished records of any active small growth manager. He was a cover-story manager when he was at **Putnam OTC Emerging Growth Fund** (1994-96), then Morningstar domestic equity Manager of the Year during his years with **Robertson Stephens Emerging Growth** and its RS-branded successor funds (1996-2010).

**Management's stake in the fund** Two of the five team members, Messrs. Osterweis and Kaufman, had investments in excess of \$1 million in the fund. Mr. Cordisco has a modest investment, while the remaining managers have not chosen to invest in the fund. On whole, seven of Osterweis's 11 managers have made personal investments in the fund. As of the latest Statement of Additional Information, none of the fund's independent trustees (who are very modestly compensated for their work) had an investment in the fund. Two of the five had no investment in any of the Osterweis funds they oversee.

**Opening date** August 31, 2010

**Minimum investment** \$5000 for regular accounts, \$1500 for IRAs, and other tax-advantaged accounts.

**Expense ratio** 0.94% on assets of \$177 million (as of 10/31/2021).

**Comments** For many of us, there is a time in life when investing is a game and we approach it with all of the intensity and seriousness of fantasy football. A little shiba inu today along with a slice of the VIX, some cloud computing tomorrow plus three irresistible GameStop trades. Maybe short Cathie Woods and long Elon Musk next week and ... hey, what's this "fractional ownership of fine art" thing about?

Osterweis Growth & Income is a fund for people who've gotten over "the stock market as a game" fantasy and want to get on with their lives while entrusting their money to managers who don't flirt with NFTs. Its aim is to be a more flexible alternative to the rigid 60% large caps / 40% investment-grade bonds that doesn't lose sight of the fact that you've entrusted part of your financial future to them. They take that trust very seriously.

**Why consider Osterweis Growth and Income?** There are two reasons. First, **Osterweis makes sense in an uncertain world.** Osterweis Growth & Income is essentially the marriage of the flagship **Osterweis Fund** (OSTFX) and **Osterweis Strategic Income** (OSTIX) with a twist. OSTFX is primarily a stock fund, but the managers have the freedom to move decisively into bonds and cash if need be. In the last 10 years, the fund's lowest stock allocation was 60% and its highest was 96%, but it tends to have a neutral position in the upper-80s. Management has used that flexibility to deliver solid long-term returns (13% over the past decade) with 13% less volatility than the stock market's. The equity selection in the Growth & Income Fund is born from the same investment philosophy and process as the Osterweis Fund, but with a greater emphasis on stocks that can deliver long-term dividend growth. Mr. Cordisco describes it as "quality at a reasonable price, with a dividend growth focus." Their hope is that they select corporations whose dividends grow steadily by the high

single digits. **Osterweis Strategic Income** (OSTIX) plays the same game within the bond universe, moving between bonds, convertibles and loans, investment grade and junk, domestic and dollar-denominated foreign. This plays hob with its long-term rankings at Morningstar, which has placed it in three very different categories (convertibles, multi-sector income, and high-yield bonds) over the past 12 years but now benchmarks all of its trailing returns as if it had been a high-yield bond fund all along.

Second, **Osterweis Growth & Income has done a remarkably good job for a long while.** The managers have resumés that date back 20 to almost 40 years. They’ve managed through a vast array of economic conditions and market states. They come across as smart, thoughtful, and disciplined, which has allowed them to succeed across market cycles and which gives investors some confidence that they can continue doing it.

Below is a quick snapshot of the judgments reflected by the three major fund analysts: MFO, Morningstar, and Lipper. In each of the first eight rows, funds are rated on a five-point scale with five being the highest. The last two rows are text-based.

	3-year	5-year	10-year
MFO Return	5	5	5
MFO Sharpe	5	5	5
MFO Rating	5	5	5
MFO Risk	3	3	3
Lipper Total Return	5	5	5
Lipper Consistency	5	5	5
Lipper Preservation	3	3	3
Morningstar Rating	5 star	4 star	4 star
Morningstar Return	High	Above average	Above average
Morningstar Risk	Above average	Above average	Above average

*Rankings current as of 11/30/2021.*

The record reveals a consistent and important pattern. Osterweis Growth and Income is consistently a top-tier fund, in both its Morningstar and Lipper peer groups, dating back to its launch 11 years ago. It produces strong absolute returns and top-tier risk-adjusted returns across all three periods.

At the same time, it is not a timid fund. The managers seek to accept rational risk, often by embracing investments at precisely the moment that other investors flee. That creates long-term opportunities, though at the price of short-term volatility.

The 0.94% ratio (as of the most recent prospectus) has been dropping steadily and is at the lower end for an active allocation fund, strikingly so for a small one.

**Bottom Line** If you believe that the market, like the global climate, seems to be increasingly unstable and inhospitable, it might make sense to invest with folks who are neither dogmatic nor still learning on the job. The team at Osterweis qualifies. “The opportunity set in fixed income is,” Mr. Cordisco notes, “not as robust.” A

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positive view of the U.S. economy (“no major headwinds, no energy shortages, no mortgage crisis”) had led the team to cautiously overweight equities while at the same time recognizing that investors “should probably think about playing a little more defense. March/April 2020 was time for aggression. It’s a bit too manic now.” They’re finding “a lot of opportunities underneath the indices” in quality firms (think “Visa”) that have gotten pummeled. Still, they’re vigilant of “pockets of mania.”

It is easy to dismiss **Osterweis Growth & Income Fund** because it refuses to play by other people’s rules; it rejects the formulaic 60/40 split, it refuses to maintain a blind commitment to investment-grade bonds, its stock sector-, size- and country-weightings are all uncommon. Because rating systems value herd-like behavior and stolid consistency, independent funds may sometimes look bad. And yet, over time, Osterweis gets it right far more often than not Osterweis Strategic Income has the highest Sharpe ratio in its Lipper peer group over the past 15 years, Growth & Income has the seventh-highest in its peer group since inception and Osterweis Fund is in the top 20% of its Lipper peer group over the past 15 years. The fund’s fixed-income portfolio, embodied by the **Osterweis Strategic Income Fund**, has managed a *negative* down-market capture over the past 15 years; that is, it rises when the bond market falls, then rises some more when the bond market rises. That’s doing business differently ... and well. Given reasonable expenses, outstanding management, and a long, solid track record, **Osterweis Growth & Income** warrants a place on any grown-up investor’s due-diligence shortlist.

**Fund website** **Osterweis Growth & Income Fund**, whose homepage links to their quarterly webinar and most recent video interviews. Folks trying to gain a broader understanding of the firm’s approach might be interested in their most recent **investment outlook** or the **Insights page** to read perspectives from all of their portfolio management teams.

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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 12/31/2021 were as follows:*

	<u>1 Yr.</u>	<u>5 Yr.</u>	<u>10 Yr.</u>	<u>Since Inception (8/31/2010)</u>
OSTVX	17.70%	12.08%	10.71%	10.63%
60% S&P 500 40% Bloomberg U.S. Aggregate Blend	15.86%	12.62%	11.14%	11.28%
S&P 500 Index	28.71%	18.47%	16.55%	16.59%
Bloomberg U.S. Aggregate Bond Index	-1.54%	3.57%	2.90%	3.13%

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 Cboe Volatility Index (VIX) is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 index (SPX).

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

The Fund's holdings and sector allocations may change at any time due to ongoing portfolio management. References to specific investments should not be construed as a recommendation to buy or sell the securities by the Fund or Osterweis Capital Management. [Click here for top 10 holdings](#) as of 12/31/2021.

The Fund was rated 4 Stars against 665 funds Overall, 5 Stars against 665 funds over 3 years, 4 Stars against 601 funds over 5 years, and 4 Stars against 433 funds over 10 years in the Allocation--50% to 70% Equity category based on total returns as of 12/31/2021.

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.

View the Lipper rating methodology [here](#).

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.

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

Treasuries (including bonds, notes, and bills) are securities sold by the federal government to consumers and investors to fund its operations. They are all backed by "the full faith and credit of the United States government" and thus are considered free of default risk.

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.  
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