OSTERWEIS
CAPITAL MANAGEMENT

A Roadmap for Fixed Income Investing in a Pandemic Economy

July 8, 2020

Fixed Income, Post-GFC Expansion

Rising Tide Lifted All Boats

- Quantitative easing (QE1-3)
- Favorable credit cycle
- Unprecedented investment opportunity

Stephen J. Brown Photography

The Tide Has Turned - Temporarily

- Covid-19 shuts down the global economy
- Profound job losses
- GDP projected to decline more than 10% in Q2
- Significant underperformance of risk assets

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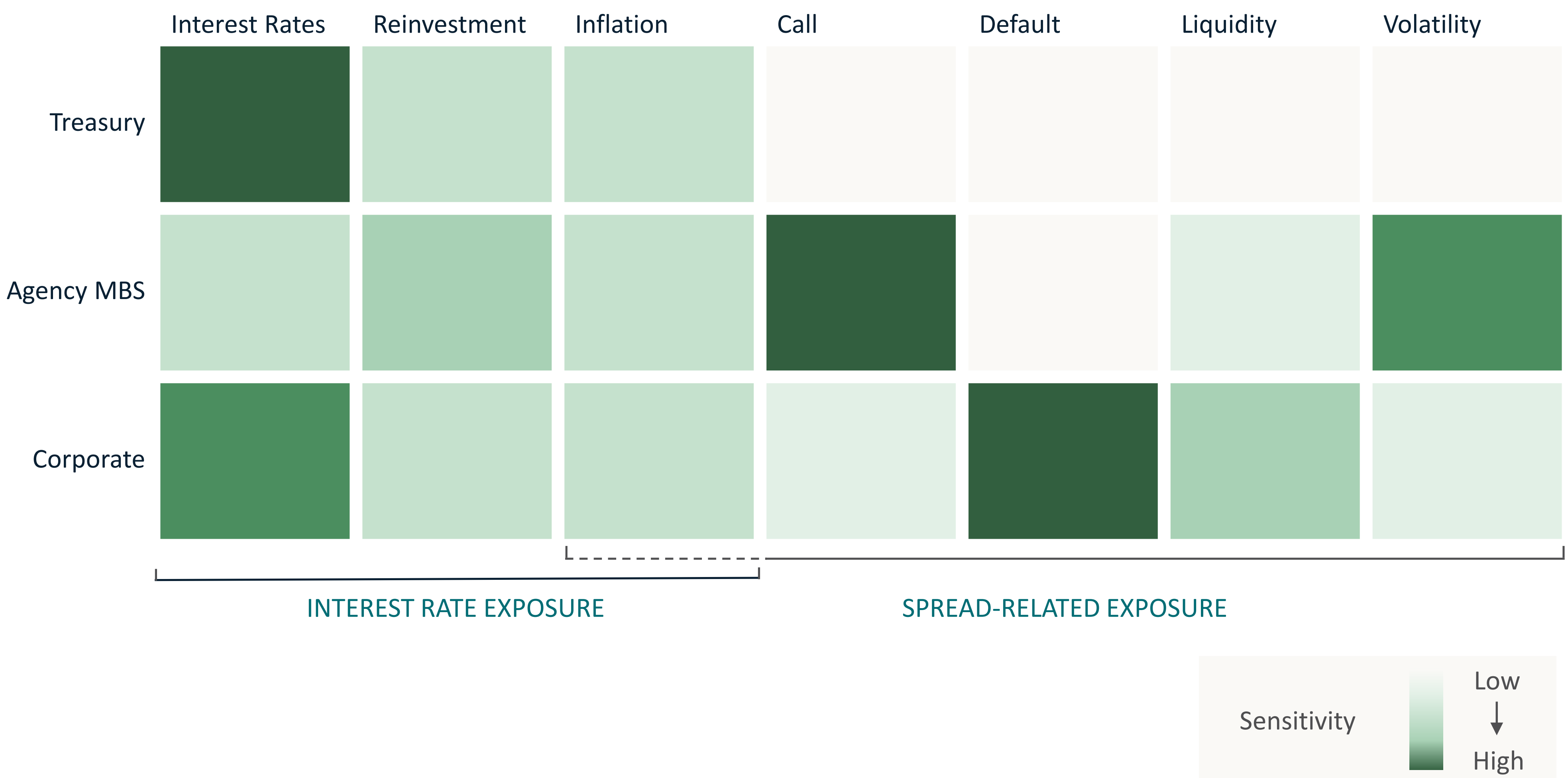
Tide Starting to Come Back

A Rich and Diversified Opportunity Set

Unrelated Factors Can Offer Diverse Sources of Return

FACTORS



Heat map reflects behavior of each sector vs. individual risk factors. Specific color gradations developed by Osterweis.

Rationale for Strategic Sector Allocation

Significant Dispersion of Returns Over Time

	Return (%)			
	U.S. Mortgage Backed Securities	U.S. Treasuries	U.S. Investment Grade Corporates	Maximum Difference Between Sectors
2000	11.16	13.52	9.08	4.44
2001	8.22	6.75	10.31	3.57
2002	8.75	11.79	10.12	3.04
2003	3.07	2.24	8.24	6.00
2004	4.70	3.54	5.39	1.85
2005	2.61	2.79	1.68	1.12
2006	5.22	3.08	4.30	2.15
2007	6.90	9.01	4.56	4.45
2008	8.34	13.74	-4.94	18.67
2009	5.89	-3.57	18.68	22.25
2010	5.37	5.87	9.00	3.63
2011	6.23	9.81	8.15	3.58
2012	2.59	1.99	9.82	7.82
2013	-1.41	-2.75	-1.53	1.33
2014	6.08	5.05	7.46	2.41
2015	1.51	0.84	-0.68	2.19
2016	1.67	1.04	6.11	5.07
2017	2.47	2.31	6.42	4.11
2018	0.99	0.86	-2.51	3.50
2019	6.35	6.86	14.54	8.19
YTD 6/15/2020	3.61	8.36	4.14	4.75
Average	**4.84**	**4.74**	**6.21**	**5.47**
Std. Dev.	**3.04**	**4.79**	**5.62**	**5.36**

Highest-Performing Sector. Averages and standard deviations reflect full calendar years only.

Source: Bloomberg Barclays Indices *Past performance does not guarantee future results.* Please see disclosure section for index definitions.

Investment Grade, March 2020

Spreads Respond Sequentially to Stimulus Measures

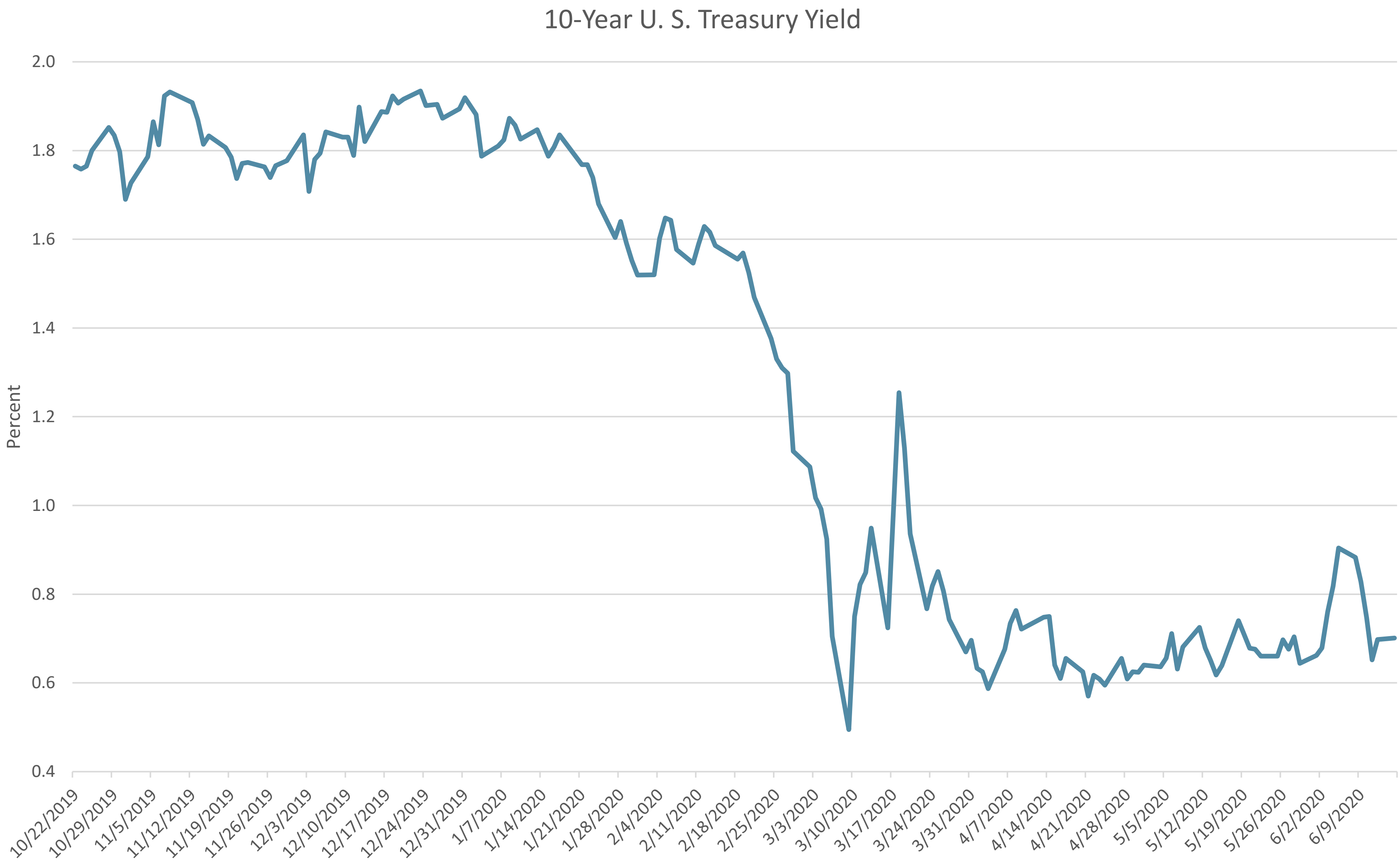
Fed Actions:

- March 15: Fed cuts rates to 0-0.25%, begins $500 billion Treasury and $200 billion Agency MBS QE
- March 23: Fed announces purchase and financing plans to include investment grade corporates, Asset-Backed Securities, Commercial Paper
- April 9: Fed details the March 23 announcement

Market Observations:

- 10-year Treasury yields reached their lowest levels on March 9 – prior to any of these announcements.
- Agency spreads peaked twice – once immediately before the March 15 announcement, and again on March 19 after 2-3 days of QE purchases.
  - Agency MBS spreads had fully retraced all Covid-related losses by March 25.
- Investment grade corporate spreads reached their widest point on March 23.
  - Corporate spreads have since retraced a bit more than half of their widening, but spreads remain at relatively elevated levels.
- Asset classes without explicit backing have only seen mild recoveries
  - These include non-agency MBS, CRT, CLOs, and parts of high yield and CMBS markets

Treasury Yields



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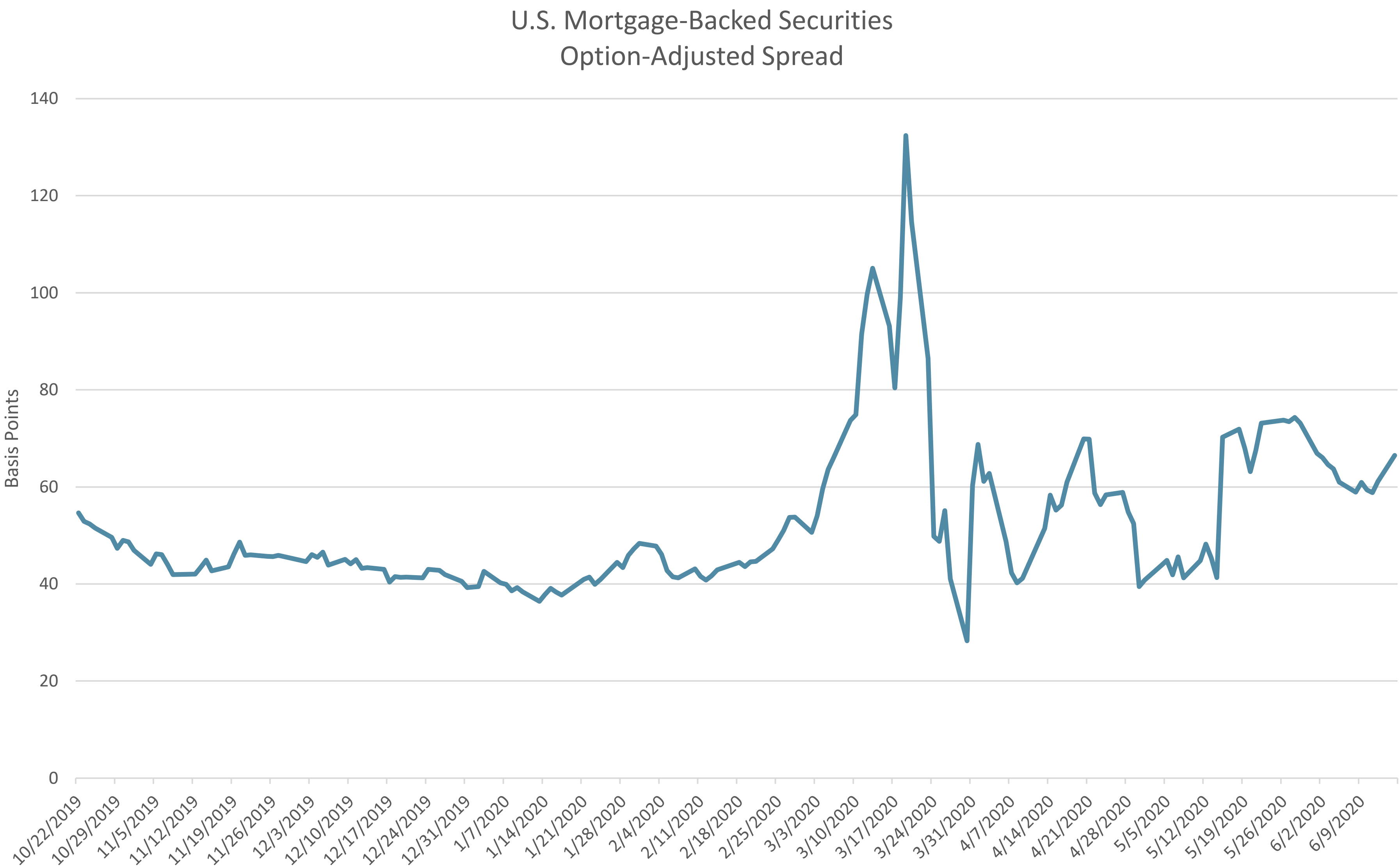
Source: Bloomberg Barclays Indices

Mortgage Spreads



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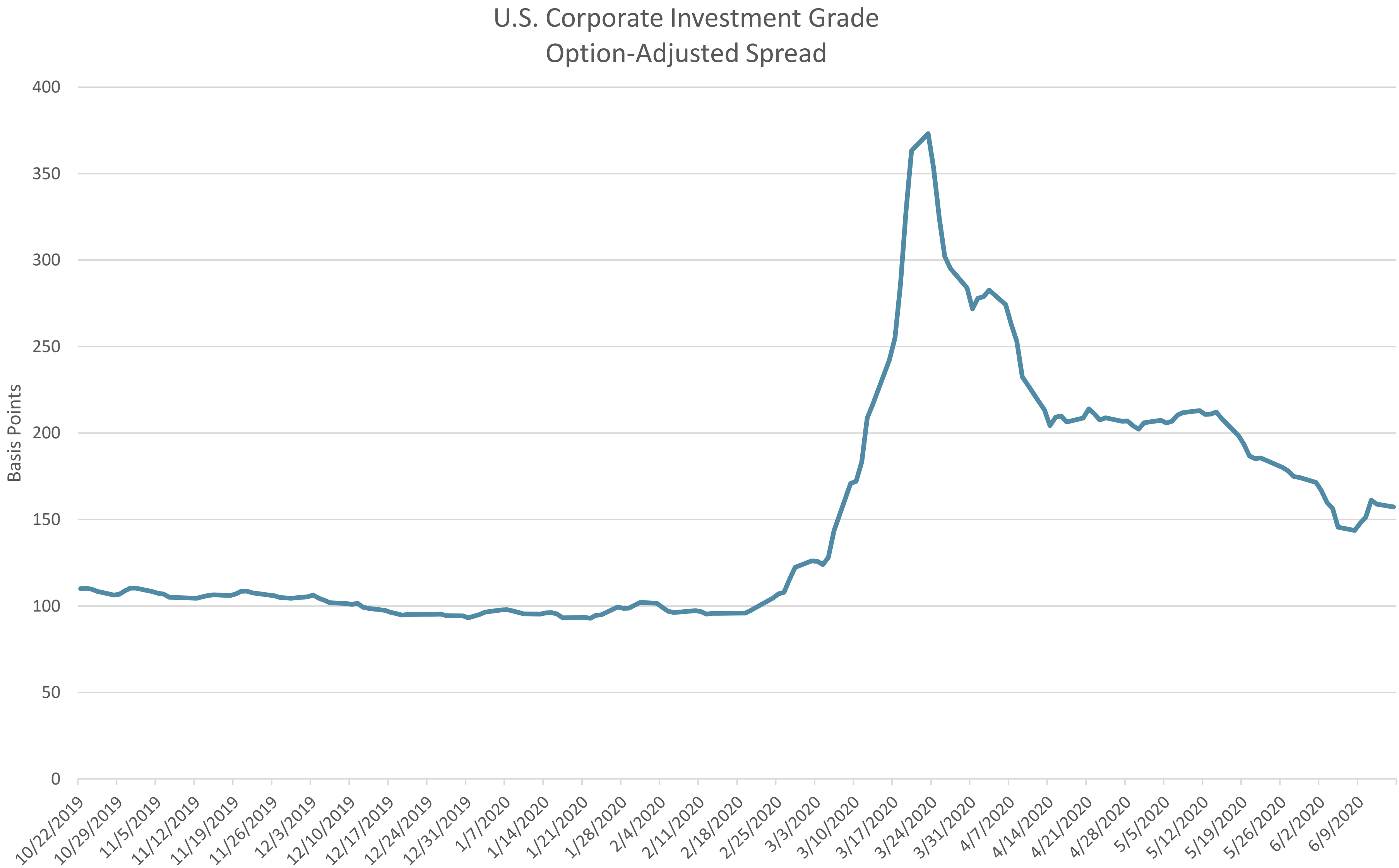
Source: Bloomberg Barclays Indices

Corporate Spreads



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Source: Bloomberg Barclays Indices

Market Outlook

- The economic downturn has moderated somewhat, as we have seen modest reopening of economies globally. We appear to have averted the worst health outcomes that were forecasted 2-3 months ago.
- Nevertheless, some parts of the risk market (equities) have noticeably decoupled from the underlying data (unemployment, mortgage delinquencies). This can partially be attributed to central bank purchases, and we can also point to the avoidance of worst-case outcomes for the remainder of the improvement. Delinquency data for non-mortgage receivables (credit cards, auto) are much better than expected, and we will continue to monitor these areas to understand the health of the consumer and the ability to emerge from this downturn.
- Despite a deluge of corporate supply, corporate spreads narrowed in sympathy with equity outperformance. As official purchases of corporate ETFs have begun, we believe spreads can continue narrowing despite weakness in underlying economic data.
- We maintain an overweight position in MBS, a neutral position in corporates, and an underweight to Treasuries.
- Our highest conviction remains an overweight to mortgages – specifically lower coupon mortgage pools and mortgage derivatives off very seasoned collateral that is less sensitive to rate-induced prepayments.

Definitions & Disclosures

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 www.osterweis.com/statpro. Please read the prospectus carefully before investing to ensure the Fund is appropriate for your goals and risk tolerance.

The Osterweis Total Return Fund may invest in fixed income securities which are subject to credit, default, extension, interest rate and prepayment risks. It may also make investments in derivatives that may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. The Fund may invest in 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 foreign and emerging market securities involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks may increase for emerging markets. Leverage may cause the effect of 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 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. It may also make investments in derivatives that may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. The Fund may invest in municipal securities which are subject to the risk of default.

Definitions & Disclosures

Investing involves risk. Principal loss is possible.

Diversification does not assure a profit, nor does it protect against a loss in a declining market.

Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.

A corporate bond is a debt security issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which typically depends on money to be earned from future operations. In some cases, the company's physical assets may be used as collateral for bonds.

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.

A mortgage-backed security (MBS) is a type of asset-backed security that is secured by a mortgage or collection of mortgages. Agency MBS securities are issued by quasi-government entities and carry an implied guarantee by the federal government.

The Bloomberg Barclays U.S. Corporate Investment Grade Index consists of publicly issued, fixed rate, dollar-denominated and non-convertible U.S. corporate bonds that are SEC-registered, have at least one year to final maturity regardless of call features, have at least $250 million par amount outstanding, and are rated investment-grade by at least two of the following ratings agencies: Moody's, S&P, Fitch.

The Bloomberg Barclays U.S. Treasuries Index consists of public obligations of the U.S. Treasury with a remaining maturity of one year or more.

The Bloomberg Barclays U.S. Mortgage Backed Securities Index consists of the mortgage-backed pass-through securities of Ginnie Mae, Fannie Mae, and Freddie Mac. It is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates that are defined according to agency, program, issue year, and coupon and then applying maturity and liquidity criteria, resulting in about 600 generic aggregates in the index.

These indices do not incur expenses and are not available for investment. These indices reflect the reinvestment of dividends and/or interest. Historical fixed income index data is provided for informational purposes only, not as an indication of future Fund performance. Source: Bloomberg Barclays Indices.

Absolute return strategies are not intended to outperform stocks and bonds during strong market rallies and may underperform during strong positive market performance.

It is not possible to invest directly in an index.

Definitions & Disclosures

Standard Deviation is a measure of dispersion that represents the degree to which an investment's returns vary around a mean. The greater the Standard Deviation, the more volatile an investment's returns were during the period measured. This statistic is calculated using the population standard deviation formula: Standard Deviation = Square root of [(Sum of squared deviations from mean)/(Number of returns in the period measured)] If the return periodicity is less than one year, the standard deviation is multiplied by the square root of the number of periods in one year in order to arrive at an annualized measure.

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

Spread is the difference in yield between a risk-free asset such as a U.S. Treasury bond and another security with the same maturity but of lesser quality. Option-Adjusted Spread is a spread calculation for securities with embedded options and takes into account that expected cash flows will fluctuate as interest rates change.

Active, passive, levered and absolute return strategies can have various investment objectives. Levered strategies may use aggressive strategies such as leverage. Levered and absolute return strategies may have performance based fees as well as investment management fees. Active, levered and absolute return strategies tend to have higher fees than passive strategies. Investing in any of these strategies involve risk and are subject to potential loss of capital. The tax treatment of returns also differs given differential tax treatment of income versus capital gains.

GFC refers to Global Financial Crisis.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

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

MBS = Mortgage Backed Securities/ CMOs = Collateralized Mortgage Obligations/ CMBS = Commercial Mortgage Backed Securities/ CRT = Credit Risk Transfer/ CLO = Collateralized Loan Obligation

Nothing contained on this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation.

Index performance is not illustrative of fund performance. Please call (866) 236-0050 for fund performance.

Definitions & Disclosures

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.

Osterweis Capital Management is the adviser to the Osterweis Funds, which are distributed by Quasar Distributors, LLC. [45883]

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* The fund was rated Five Stars against 289 funds over the past 3-years and overall in the Morningstar Nontraditional Bond category, based on total returns as of May 31, 2020.