OSTERWEIS

FUNDS

March 23, 2020

Dear Osterweis Strategic Income Shareholder,

I hope you're handling the recent market gyrations and staying healthy.

As you know, uncomfortable markets often create attractive buying opportunities. The volatility over the past few weeks has been breathtaking, and it's led to forced selling by investors who need or want liquidity at any cost.

We thought it would be helpful to provide some comments from Carl Kaufman and the Osterweis Strategic Income team about the state of the high yield market. Here are a few updates, as of Monday, March 23.

- On Thursday, March 12 we started to see the first real sign of capitulation and that has continued as the impact of COVID-19 is touching our daily lives.
- State, Local, and Federal governments are responding to what we believe is a serious but transitory issue.
- As you probably know, we entered 2020 with a defensive position including shorter-dated, higher quality credits and a healthy allocation to cash and cash alternatives.
- As many of the high yield ETFs were experiencing redemptions and were forced to sell, we were nibbling.
- Over the past week, selling has intensified and we have moved from defense to offense as spreads have widened and yields are becoming very attractive on absolute, relative and risk-adjusted bases.
- For perspective, the ICE BofA U.S. High Yield Index closed Friday, March 20 at a 10.8% yield to maturity, which eclipses the 10.2% high yield seen during the 2016 correction.
- The current High Yield spread is over 1,000 basis points. According to a recent blog post by Barclays, the index has crossed a 900 basis point spread six times since 2000. Excluding now, the other 5 times saw an average total return of 16.62% in the following 12 months.
- We are seeing attractive opportunities in longer-dated bonds that were issued with coupons that were too low in our judgement a few years ago. Those bonds are now trading at significant discounts and compelling yields due to this sell off.
- Although the damage done to the sectors impacted by COVID-19 (e.g., airlines, hotels, cruise lines, restaurants, etc.) is real, we expect these sectors will come back in time. In addition, the Federal government seems committed to providing assistance to these industries to bridge the gap.
- The two biggest market headwinds are the coronavirus and the collapse in oil prices. We believe that the first is one headline away from a resolution (e.g., a treatment and/or a vaccine), and the second is a symptom of the first – but may take more time to reverse given the demand destruction globally.

While Carl and the Strategic Income team have been cautious over the past few years, they are now selectively deploying their cash to pick up bargains from motivated sellers in strong companies that were able to finance themselves very cheaply. Historically, selloffs of this magnitude have offered investors good entry points to buy at attractive yields, which are scarce in today's low interest rate environment.

We hope this information is helpful.

Best regards,

The Osterweis Funds Team

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Index performance is not illustrative of fund performance. One cannot invest directly in an index. Please call (866) 236-0050 for fund performance.

Past performance does not guarantee future results.

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.

Yield to maturity is the rate of return anticipated on a bond if it is held until the maturity date.

The ICE BofA U.S. High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

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 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.

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