

OSTERWEIS CAPITAL MANAGEMENT, INC.

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May 11, 2012

This brochure provides information about the qualifications and business practices of Osterweis Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at (415) 434-4441. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Additional information about Osterweis Capital Management, Inc. is available on the SEC’s website at www.adviserinfo.sec.gov.

Osterweis Capital Management, Inc. is registered as an investment adviser with the SEC. Registration as an investment adviser does not imply a certain level of skill or training and therefore should not be the sole basis for selecting an investment adviser.

ITEM 2 – SUMMARY OF MATERIAL CHANGES

Our current Form ADV Part 2a brochure dated May 11, 2012 contains no material changes and is substantially similar to the version dated March 30, 2012.

If you wish to request a copy of our current brochure, please contact us by telephone at (415) 434-4441 and ask to speak with a member of our compliance department.

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ITEM 4 – ADVISORY BUSINESS

Our advisory business is comprised of two companies. The elder of the two is Osterweis Capital Management, Inc. (“OCM Inc.”), which was founded by John Osterweis in 1983 to serve the portfolio management needs of high net worth individuals, foundations and endowments. In 1997, Osterweis Capital Management, LLC (“OCM LLC”) was founded with the same mission, but as a limited liability company. OCM LLC facilitated our expansion into new product lines. Both companies are investment advisers registered with the SEC. SEC registration does not imply a certain level of skill or training.

Each company has its own brochure. This brochure is for OCM Inc. Unless otherwise noted the information in this brochure describes OCM Inc. by itself. Instances where this brochure references the two firms in aggregate are clearly identified. The purpose of these references is to make it easier for you to understand our business as a whole. OCM Inc. and OCM LLC have the same owners, employees and investment strategies. On a day-to-day basis the two firms operate as a single entity. As of March 31, 2012, the two firms collectively managed over \$5.2 billion in assets on a discretionary basis. Of that total, OCM Inc. managed over \$1.4 billion.

OCM Inc. is privately held by a number of employees of the firm and two non-employees. As an independently owned firm, OCM Inc. enjoys the autonomy necessary to keep its clients’ interests at the forefront. Currently John Osterweis is the only person who owns over 25% of the firm. Mr. Osterweis has begun gradually transferring his equity stake in the firm to certain employees who are critical to the future success and operation of the firm. This gradual ownership transition is designed to preserve the continuity of our staff and the quality of our investment advisory services for clients.

As of January 1, 2012, the following individuals each owned at least 5% of OCM Inc.:

- John Osterweis
- Hellman Revocable Trust
- Matthew Berler
- Carl Kaufman
- Sasha Kovriga
- Gregory Hermanski

As of March 31, 2012, the breakdown of discretionary and non-discretionary assets under management for OCM Inc. was as follows:

Discretionary:	\$1,490,625,778
Non-Discretionary:	\$ 0
Total:	\$1,490,625,778

We offer several investment strategies, two of which are executed by our internal investment teams: the long-equity and fixed income teams. Effective June 1, 2011, our short-equity strategy is executed by Paradigm Advisors, LLC, an unaffiliated investment adviser, pursuant to a sub-advisory arrangement with OCM, LLC. Historically, our teams have concentrated their efforts on securities that trade on U.S. markets and exchanges, with foreign securities playing a secondary role. Depending on the type and number of strategies selected, each team may contribute to the management of a particular client's investments. We often customize our advice for individual accounts based on each client's investment objectives and guidelines, as well as their financial situation.

ITEM 5 – FEES AND COMPENSATION

Our various fees arrangements are described below. Please note that our fees do not include brokerage commissions, transaction fees, and other related costs and expenses that are incurred in the course of managing a portfolio of securities. Clients may incur charges imposed by custodians, brokers, exchanges and other third parties. Item 12 of this brochure describes the factors that we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of brokerage commissions. Any mutual funds or exchange traded funds held in a client portfolio will charge their own administration and management fees, which are disclosed in those funds' prospectuses. Such charges, fees and commissions are exclusive of and, except where OCM Inc. or OCM LLC is the adviser to such a fund, shall be in addition to the fees described below.

5.1 – Fees for Standard Clients

Most of our clients are charged a management fee equal to a percentage of their account's market value. This is called an asset-based fee. For the remainder of this section, we refer to clients who are charged asset-based fees as "Standard Clients." The manner in which fees are charged is established in each client's written investment advisory agreement. Clients may agree to either have their fee deducted directly from their custody account or to pay it separately. The management fee is payable quarterly, in advance, and is based on the market value of the Standard Client's assets under management as of the close of business on the last business day of the immediately preceding calendar quarter (the "Account Value").

A client who becomes a Standard Client on any day other than the last day of a calendar quarter will pay a prorated fee for the first partial calendar quarter during which our investment advisory contract is in effect. A Standard Client whose advisory contract is terminated on any day other than the last day of a calendar quarter will be refunded any prepaid but unearned fee, calculated based on the number of days remaining in the calendar quarter.

At our discretion, certain related groups of accounts may be aggregated for the purposes of applying certain fee-breakpoints listed below. For Equity and Balanced accounts, the second breakpoint will only be applied to individual accounts that are greater than \$25 million. We reserve the right to waive all or any portion of our fees charged to any client. We believe our fees are competitive with fees charged by other investment advisers for comparable services. Comparable services may be available, however, from other sources for lower fees.

Advisory fees for Standard Clients are typically based upon the following fee schedules, except that a reduced fee of 0.50% per annum may be charged on the portion of the Account Value invested in municipal bonds:

Equity and Balanced Portfolios:

- 1.25% per annum on the first \$10 million or fraction thereof
- 1.00% per annum on the next \$15 million or fraction thereof
- 0.75% per annum on amounts in excess of \$25 million

Equity and Balanced Portfolios of Tax Free Institutions and Eleemosynary Accounts:

1.00% per annum on the first \$10 million or fraction thereof
0.75% per annum on the next \$15 million or fraction thereof
0.65% per annum on amounts in excess of \$25 million

Fixed Income Portfolios:

1.00% per annum on the first \$25 million or fraction thereof
0.75% per annum on amounts in excess of \$25 million

Fixed Income Portfolios of Tax Free Institutions and Eleemosynary Accounts:

0.75% per annum on the first \$25 million or fraction thereof
0.65% per annum on amounts in excess of \$25 million

We reserve the right to charge fees of up to 2.00% on accounts which do not meet the minimum account size generally required. We also reserve the right to negotiate fee breakpoints and fee rates different from those set forth above should we determine that the circumstances warrant it.

No management fee is charged on the portion of a Standard Client's account that is invested in a mutual fund for which OCM Inc. or OCM LLC serves as the adviser. We instead receive the management fee described in Item 5.2 below.

Investment advisory agreements may generally be terminated by either the Standard Client or OCM Inc. upon 30 days' prior written notice to the other party; provided, the Standard Client may terminate the investment advisory contract, without penalty, by written notice to us (a) within five business days after the date of signing the contract, or (b) within ten days after receipt of notice from us of any amendment to the fee rate.

5.2 – Fees for Mutual Funds

OCM Inc. serves as the adviser to one mutual fund: the Osterweis Fund. This fund is an open-end management investment company registered under the Investment Company Act of 1940, as amended ("Investment Company Act"). We receive a monthly advisory fee from the Osterweis Fund equal to 1.00% per year of the average daily net assets up to \$500 million and 0.75%

thereafter. Our affiliated adviser, OCM LLC, has a similar advisory arrangement with the Osterweis Strategic Income Fund and the Osterweis Strategic Investment Fund.

OCM LLC also serves as a sub-adviser to certain unaffiliated mutual funds. OCM LLC receives sub-advisory fees from the advisers of such funds generally equal to at least 0.75% per year of the average daily net assets under their management. Neither OCM Inc. nor OCM LLC receives any sales compensation in connection with the sale of shares of the unaffiliated mutual funds to which OCM LLC serves as a sub-adviser.

5.3 – Fees for Private Funds

OCM Inc. does not serve as an investment adviser to any unregistered pooled investment vehicles (each a “Private Fund”). However, our affiliate, OCM LLC serves as a general partner and/or investment adviser to several Private Funds and receives a management fee for its services.

ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

OCM Inc. is not a party to any performance-based fee arrangements. However, our affiliate, OCM LLC has entered into performance-based fee arrangements with several Private Funds to which OCM LLC serves as a general partner and/or investment adviser. Fees based on performance are charged in accordance with the provisions of Rule 205-3 under the Investment Advisers Act of 1940, as amended. Performance-based fee arrangements may create an incentive for us to recommend investments that may be riskier or more speculative than those which would be recommended under a different fee arrangement. In addition, since performance-based compensation is calculated on a basis which includes unrealized appreciation of the assets held by a Private Fund, it may be greater than if such compensation were based solely on realized gains. Having multiple fee arrangements may also create an incentive for us to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. We have implemented procedures designed to ensure that all clients are treated fairly and equitably over time, and to prevent these conflicts from influencing the allocation of investment opportunities among clients. Generally, all non-directed-brokerage accounts participating in a transaction share the same price on a pro rata allocation basis in an attempt to mitigate any

conflict of interest. Investment opportunities are allocated among similarly managed accounts to maintain consistency of portfolio strategy, taking into account cash availability, investment restrictions and guidelines, portfolio composition and other relevant factors.

Since management fees and performance-based compensation are based on the net asset value of a Private Fund, a conflict may also arise as we are valuing the assets held by a Private Fund. We will generally value assets at their fair value in accordance with U.S. generally accepted accounting principles.

ITEM 7 – TYPES OF CLIENTS

We provide investment management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, registered mutual funds, unregistered pooled investment vehicles, trust programs and other U.S. and international institutions.

For individually managed accounts, we generally require a client initially to provide and maintain a \$5,000,000 minimum Account Value for new equity and balanced accounts and a \$10,000,000 minimum Account Value for fixed income accounts. We may waive such requirements based on special circumstances including, without limitation, high asset growth potential, relationship to existing accounts or other prospective accounts, or a pre-existing relationship with members of our firm.

For investors in our mutual funds, we generally require an initial minimum investment of \$5,000, with a \$1,500 minimum initial investment for retirement and tax deferred accounts.

For investors in our Private Funds managed by OCM LLC, we generally require a minimum initial investment of \$500,000. An investor in one of our Private Funds must be an “accredited investor” under Regulation D that is eligible to enter into performance fee arrangements under the Investment Advisers Act. We typically require the Private Fund investors to make representations concerning their financial sophistication and ability to bear the risk of loss of

their entire investment in the Private Fund. The minimum contribution and investor requirements may be waived in our sole discretion.

ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

We take a fundamental approach to investing. By this we mean that we seek to understand not just the overall market but also the particulars of each company in which we invest. We assess each company's management team, business strategy and relevant public financial data. We also review third-party research, market data and industry trends.

We have several investment strategies including long-equity and fixed income. Our long-equity and fixed income strategies are combined for some clients to create a balanced strategy. Clients with separately managed accounts may elect to constrain our discretionary authority within a strategy via additional custom restrictions or guidelines so long as those guidelines are provided to us in writing and we agree to accept them. Each of these strategies and their key areas of risk are discussed below. We do not guarantee the success of any investment strategy or the attainment of any client's performance objectives. **Investing in securities involves the risk of loss, which clients should be prepared to bear.**

8.1 – Long-equity Strategy

Our long-equity strategy focuses on identifying out-of-favor, undervalued situations with low P/E, P/B and/or P/FCF ratios where we can see strong or rapidly improving cash flow dynamics. We seek to avoid fads and speculatively priced stocks, where the risk of mistakes is high.

We continually search for under-researched, growth situations that can be purchased for modest multiples. As such companies gain recognition and are accorded multiples more in line with their growth rates, we may become sellers. We also tend to focus on asset rich companies with improving earnings prospects. In short we often follow the old saying, "Buy assets, sell earnings." This tends to reduce the risk of earnings disappointments.

Underlying everything we do is an intense focus on cash flow, especially a company's ability to generate free cash flow after all expenses and capital spending. We feel cash flow is more "real"

than reported earnings, which may be subject to accounting manipulation. Companies that generate strong free cash flow are generally able to reinvest in their business, repay debt, pay dividends, repurchase shares and grow through acquisitions. They also tend to be attractive acquisition targets for both other companies and financial buyers. Because of these characteristics, companies with rising free cash flow are often better able to grow, regardless of stock market conditions and, at the same time, may offer some relative downside protection during periods of market weakness.

Depending on individual client needs and guidelines, we may use cash and certain fixed-income securities to assist in managing an account's exposure to overall market risk.

Clients in the long-equity strategy are subject to various risks including potential loss of principal, general market risk, small and medium-sized company risk, foreign securities and emerging markets risk and default risk. As a general matter, by investing in stocks, we may expose a client's account to a sudden decline in the share price or to an overall decline in the stock market. The value of investments held in a client's account will fluctuate daily and cyclically based on changes in an issuer's financial condition and prospects and on overall market and economic conditions. Further, foreign investments tend to be more volatile than investments in U.S. companies, and are subject to risks that are not typically associated with U.S. investments. For example, such investments may be adversely affected by changes in currency rates and exchange control regulations, unfavorable political, social and economic developments and the possibility of seizure or nationalization of companies or imposition of withholding taxes on income. Moreover, many of the risks with respect to foreign investments are more pronounced for investments in developing or emerging market countries, which include several countries in Asia, Latin America, Eastern Europe, Africa, and the Middle East. The economies of many of these countries depend heavily upon international trade and are therefore significantly affected by protective trade barriers and economic conditions of their trading partners. Many of these countries may also have government exchange controls, currencies with no recognizable market value relative to the established currencies of developed market economies, little or no experience in trading in securities, no financial reporting standards, a lack

of banking or securities infrastructure, and a legal tradition which does not recognize rights in private property.

8.2 – Fixed Income Strategy

Our fixed income strategy combines top-down and bottom-up analysis with a search for opportunistic ideas to construct our portfolios. We begin with a broad investment universe that includes convertibles, high yield debt, investment grade debt, Treasury debt, floating rate notes, preferred equity and high-dividend-paying common equity. We then evaluate the macroeconomic environment and formulate our outlook on the direction of the capital markets to help us determine our desired maturity structure, credit quality and asset class allocations. Our asset allocation and security selection will reflect where we think we are at any given time in both the interest rate and credit cycles. Allocations may be heavily weighted toward longer-maturity, investment grade debt when interest rates are falling. During a period of improving credit conditions, allocations may be more heavily weighted toward convertibles and high yield bonds, which generally benefit from improving economic conditions and can offer relatively better protection in a rising interest rate environment. Once broad allocations have been decided, we begin our equity-like security selection process.

The security selection process includes fundamental analysis, credit analysis, assessment of management, and finally, the evaluation of each new security's impact on the portfolio. We emphasize a thorough understanding of each company's income statement and each company's ability to generate recurring free cash flow from its operations. As a result, we do a significant amount of work to determine the company's business prospects as well as the positive and negative levers in its financial model that may influence its ability to generate cash flow. We believe that we find our best investments in companies that have great products, a competitive advantage that gives them pricing power in the market, a consistent operating history, and management that operates the company as if they own it. Finally, we look at current yield, expected appreciation potential and downside risk to gauge the attractiveness of the security versus other investment opportunities. At all times during this process, we are on the lookout for opportunistic ideas.

Clients in the fixed income strategy are subject to various risks including potential loss of principal, general market risk, default risk, interest rate risk, inflation risk, liquidity risk and small and medium-sized company risk. As a general matter, the prices of fixed income securities respond to economic developments, particularly interest rate changes, as well as to perceptions of an issuer's creditworthiness. Typically, fixed income securities decrease in value if interest rates rise and increase in value if interest rates fall, with lower rated securities more volatile than higher rated securities. Further, investments in mid-cap companies may involve greater risks than investments in larger, more established companies, such as limited product lines, distribution channels and financial and managerial resources. The securities of mid-cap companies may have greater price volatility and less liquidity than the securities of larger capitalized companies, and may be more difficult to value.

Fixed income securities that are below investment grade or unrated involve greater risks of default and are more volatile than investment grade securities. High yield bonds involve a greater risk of price declines than investment grade securities due to actual or perceived changes in an issuer's creditworthiness. In addition, issuers of high yield bonds may be more susceptible than other issuers to economic downturns, which may result in a weakened capacity of the issuer to make principal or interest payments and ultimately to repay principal upon maturity.

8.3 – Balanced Strategy

Our Balanced strategy combines our long-equity and fixed income strategies into a single portfolio. The weighting of the two strategies within a portfolio and the degree of management discretion we have over that weighting is determined with each client separately, and is informed by a client's risk tolerance as well as their capital preservation and income goals. The risks of this strategy include all those identified in Items 8.1 and 8.2, as well as the risk that we may fail to properly implement the agreed-upon asset allocation strategy successfully.

ITEM 9 – DISCIPLINARY INFORMATION

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of our firm or the integrity of our management. We have no facts or events to disclose relevant to this item.

ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

OCM Inc. has a number of other financial industry activities and affiliations:

- As discussed in Item 4, OCM LLC is a “related person” of OCM Inc. OCM LLC is registered with the SEC as an investment adviser.
- As discussed in Item 5.2, OCM Inc. serves as the investment adviser to a mutual fund, the Osterweis Fund. Pursuant to certain provisions of the Investment Company Act, we may be deemed to control, and may therefore be considered a “related person” of, this fund.
- Our affiliate, OCM LLC, serves as an investment adviser to two mutual funds and as the general partner and/or investment manager to several Private Funds, in which our clients may be solicited to invest. Those Private Funds invest in, hold, sell, trade and otherwise deal in securities consisting principally of equity and equity-related securities that are publicly traded in domestic and foreign markets.

ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

In order to address conflicts of interest, our firm has adopted a Compliance Manual and Code of Ethics (the “Code”) for all employees, officers and management personnel describing its high standard of ethical and professional business conduct and fiduciary duty to its clients. The Code includes provisions relating to the confidentiality of client information, a prohibition on insider trading, and procedures governing employees’ personal securities trading, among other things. The Code applies to all of our firm’s employees, officers and management personnel. All employees must acknowledge and accept the terms of the Code and periodically certify their compliance therewith. Our clients and prospective clients may request a copy of our Code by contacting John Tavernetti, Chief Compliance Officer, at (415) 434-4441.

The firm’s Code is designed to ensure that the personal securities transactions, activities and interests of our employees will not interfere with (a) making decisions in the best interest of

advisory clients and (b) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of our clients. In addition, the Code requires pre-clearance of certain types of transactions.

Subject to the limitations of our Code and applicable law, OCM Inc. and its employees may purchase securities for their own accounts or for the account of OCM LLC which they do not consider appropriate for clients. Our employees may also personally invest in the same securities that are purchased for clients, and they may own securities of issuers whose securities are subsequently purchased for clients. Unless a determination is made that a trade does not create a conflict with clients' interests, employees typically will not purchase or sell any security for their personal account (a) on the same day we have purchased or sold such security for clients or (b) if a decision has been made to purchase or sell such security for a client account in the immediate future, until such client purchase or sale is made. Despite these procedures, we recognize that an employee may obtain a better price for his or her securities trade than the price that may be obtained on behalf of a client. Furthermore, the firm and its employees may also sell or purchase a security for their own investment accounts, even though they do not deem that security appropriate to sell or purchase for a client's account.

Certain affiliated accounts may trade in the same securities with unaffiliated client accounts on an aggregated basis when consistent with our obligation to seek best execution. In such circumstances, the affiliated and client accounts typically share commission costs equally and receive securities at a common average price. We retain records of the trade order (specifying each participating account) and its allocation, which are completed prior to the entry of the aggregated order. Completed orders are allocated as specified in the initial trade order. Partially filled orders are generally allocated on an equitable basis unless the size of the resulting allocations would be so small as to create inefficiencies. Any material exceptions are explained on the order ticket.

It is our general policy not to effect any principal or agency cross securities transactions for or

between client accounts. However, should future circumstances arise wherein effecting cross-trades between or among client accounts is believed to be in the best interest of such clients, we may seek to effect such trades unless prohibited or restricted by applicable law (e.g., ERISA) or by the clients' investment advisory agreements. These cross-trades could potentially involve accounts of clients of our affiliate, OCM LLC. In effecting such cross-trades, we will seek to reduce the transaction costs to our clients. All such cross-trades will be consistent with the investment objectives and policies of each client account involved in the trades, and will be effected at a current independent market price of the securities involved in the trades. We will not receive any special compensation for effecting such transactions.

Our affiliate, OCM LLC, serves as the general partner and/or investment adviser of certain Private Funds and may solicit certain of our clients to invest in those Private Funds. Each prospective investor in a Private Fund will receive a copy of the relevant Private Fund's disclosure materials which will describe the terms of our relationship and disclose the relevant conflicts of interest. The firm does not intend to advise clients as to the appropriateness of an investment in a particular Private Fund and will not receive any compensation for doing so or for selling interests in a Private Fund (except to the extent that OCM LLC receives management fees and performance-based fees from all Private Fund investors).

We may also recommend to clients that they invest in the Osterweis Strategic Income Fund or the Osterweis Strategic Investment Fund, which are advised by OCM LLC and from which OCM LLC derives management fees, or the Osterweis Fund, which is advised by OCM Inc. and from which we derive a management fee.

When a client invests a portion of their managed account in one of these funds, we will receive a management fee through the relevant mutual fund or Private Fund (indirectly through our affiliation with OCM LLC) and will not charge a management fee on that portion of the client's managed account.

ITEM 12 – BROKERAGE PRACTICES

We have established and maintain trade allocation policies and procedures designed to ensure over the long term that trades are allocated among client accounts in a fair and equitable manner. Under these procedures, trades executed on behalf of multiple accounts are typically aggregated so that all participating accounts receive the same average price. Fully-executed trades are generally allocated among all participating accounts on a pro rata basis. However, other objective allocation methods may be employed provided these alternative methods are applied consistently, operate fairly and are documented. For example, in circumstances where we are unable to trade a sufficient quantity of a particular security on a given day to allocate to all participating accounts on a pro-rata basis efficiently, one of several alternate objective allocation methodologies may be used. Most common among these alternate methodologies are the following: purchases may be allocated to the least-invested participating accounts first and sales may be allocated to the most over-invested accounts first (the terms *least-invested* and *over-invested* refer to the participating accounts' total invested percentage relative to the targeted percentage for the strategy). Separately, our allocation procedures also allow for *short term* (e.g. intraday) investments to be allocated in a randomized manner among participating accounts if, in our judgment, available quantities are too limited for pro-rata allocation.

We seek to obtain the best execution reasonably available under the circumstances for all clients' securities transactions. Where we have discretion to place orders for the execution of portfolio transactions for clients, we may allocate such transactions to such brokers and dealers for execution on such markets, at such prices and at such commission rates as, in our good faith judgment, will be in the best interest of the clients, taking into consideration in the selection of such brokers and dealers not only the available prices and rates of brokerage commissions, but also other relevant factors (such as, without limitation, the quality of the overall brokerage and research services provided by the broker and/or dealer, the size of the transaction, the difficulty of execution, the operational facilities of the broker and/or dealer involved, and the risks in positioning a block of securities) without having to demonstrate that such factors are of a direct benefit to a client. We do not obligate ourselves to obtain the lowest commission or best net price for any client on any particular transaction.

To provide a framework for achieving our best execution objective, we have adopted a Best Execution and Soft Dollar Policy. The purpose of this policy is to ensure that we meet our fiduciary duties to our clients with respect to brokerage practices and trade execution. Brokers are selected and subsequently evaluated based on the following criteria: execution capability (including market maker status, particular expertise, quality, promptness and access to various markets), commission rates (including historical rates and the ability to negotiate), broker quality (including creditworthiness, financial condition, reliability and reputation) and other factors. Our Brokerage Oversight Committee is responsible for periodically monitoring and evaluating broker performance.

In addition to execution quality, we consider the value of brokerage and research services a broker or dealer may provide. Selecting a broker or dealer in recognition of services or products other than simply transaction execution is known as paying for those services and products with “soft dollars.” We generally allocate a substantial percentage of our discretionary brokerage in a manner that generates soft dollar benefits.

Because many of those services or products could be considered to provide some benefit to our firm, we could be considered to have a conflict of interest in allocating client securities transactions. Specifically, we may have an incentive to select a particular broker or dealer to execute client transactions in order to obtain research or other products or services offered by that broker or dealer and the commissions charged by that broker or dealer may not be the lowest commissions we might otherwise be able to negotiate. In addition, we could also have an incentive to cause clients to engage in more securities transactions than would otherwise be optimal in order to generate brokerage commissions with which to acquire these products and services.

We are committed to treating our clients fairly, and in that regard we have adopted the aforementioned Best Execution and Soft Dollar Policy and will seek to make decisions involving “soft dollars” in a manner consistent with that policy and which satisfies the requirements of the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended. That means we will enter into and maintain a soft dollar arrangement only if we determine, after

considering all appropriate factors, that the commissions paid pursuant to the arrangement are reasonable in relation to the value of the brokerage and research services provided by the broker or dealer. In making that determination, we may consider not only the particular transaction or transactions, and not only the value of eligible brokerage and research services to a particular client, but also the value of those services to our firm's performance of its overall investment responsibilities to all of its clients. In some cases, the commissions charged by a particular broker or dealer for a particular transaction or set of transactions may be greater than the amounts another broker or dealer who did not provide such services might charge. Additionally, in some cases, a client's transaction may be executed by a broker or dealer in recognition of brokerage and research services that are not used in managing that client's account.

Where a particular product or service that a broker or dealer is willing to provide for soft dollars has not only a "research" application, but it is also useful to us for non-"research" purposes, we may allocate the cost of the product or service between its "research" and "non-research" uses and pay only the "research" portion with soft dollars. Our interest in making such an allocation may differ from clients' interests in that we would have an incentive to designate as great a portion of the cost as possible as "research" in order to permit payment with soft dollars. Generally, however, our firm does not pay for any such mixed-use products or services with soft dollars.

All "research" products and services we acquired with soft dollars within the last year qualified for the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended. These research products and services included the following: research reports on or other information about particular companies or industries; economic and political surveys and analyses; recommendations and ongoing coverage as to specific securities; meetings with companies' management, financial publications; access to financial database software and services; news analysis; and other products or services that we believe enhance our investment decision making.

The Brokerage Oversight Committee is also responsible for overseeing all aspects of our soft dollar and client-directed brokerage arrangements. The Committee may set allocation targets and

periodically reviews the firm's soft dollar arrangements, allocations, and other related matters. Because of the services provided, we may negotiate a brokerage commission in excess of that which another broker might have charged for effecting the same transaction if we determine in good faith that such amount of commission is reasonable in relation to the value of the brokerage and research services provided by the broker and/or dealer, viewed in terms of either the particular transaction or our overall responsibilities with respect to the accounts over which we exercise investment discretion. Instances may arise where clients pay commissions to brokers who have furnished services of benefit to other clients of our firm and its managers, officers, members, or employees or in instances where not all such services may be used by us after payment of commissions by clients.

We do not consider, in selecting, or recommending allocation targets for, a broker-dealer, whether we or our affiliate, OCM LLC, receive client referrals from that broker-dealer or a third party.

Certain clients direct us to cause all or some of the transactions for their accounts to be executed through a specified broker. In evaluating such directed brokerage arrangements, a client should consider that under such circumstances (a) we will not be able to negotiate brokerage commissions with respect to transactions executed by their specified broker, and as a result, depending upon certain circumstances, such client may pay higher commissions than those paid by our other clients who have not directed us to execute transactions through a specified broker, (b) such client may not receive best execution with respect to these transactions, and (c) the sequencing of such client's transactions may differ from that of our other clients that have not directed OCM to execute transactions through a specified broker.

ITEM 13 – REVIEW OF ACCOUNTS

Except as described below, all investment advisory accounts managed by OCM Inc. are reviewed at the end of each quarter by one or more of our Portfolio Managers, and may be reviewed more frequently if appropriate. Such matters as percentage invested, asset allocation, recent performance, benchmark assignment, number of holdings and number of non-strategy holdings may each be taken into consideration in determining the frequency of reviews. More

frequent reviews may also be conducted at the request of clients or upon a significant change in company fundamentals, industry outlook, general economic trends, market conditions or client investment goals. Future prospects of individual security issuers are monitored and supervised continually, either by security or account. Purchase and sale decisions are made based on price movements or market events.

Unless otherwise instructed by a client, at the end of each calendar quarter, we send all clients unaudited reports of their account(s) market value, holdings and performance. Separately, clients also receive unaudited statements directly from the custodian of their accounts at least quarterly (and in many cases monthly). All of the aforementioned client reports are presented in written form.

ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

With respect to the Osterweis Fund, the Osterweis Strategic Income Fund and the Osterweis Strategic Investment Fund, OCM LLC or OCM Inc. may pay certain fees (out of their separate assets and without additional cost to those funds or their shareholders) to intermediaries or other third parties who introduce persons to those funds, insofar as such persons subsequently become fund shareholders.

Separately, we have entered into an agreement with Morgan Guaranty Trust Company (“MGT”) through which MGT or an affiliate of MGT may refer certain of its clients to us. We do not pay MGT a fee for such referrals. However, MGT does receive a fee from its clients for providing such investment adviser selection, retention and monitoring services. From time to time, we may enter into other similar arrangements.

ITEM 15 – CUSTODY

Client’s funds and securities are maintained at a “qualified custodian” as required under SEC Rule 206(4)-2, and we do not take physical possession of any client’s funds or securities. However, due to our ability to deduct fees directly from certain client accounts and due to the service of our firm or related persons as general partners or trustees to certain accounts, we are

deemed to have custody of certain client funds and securities under Rule 206(4)-2. We follow the requirements of this Rule for all clients for which we are deemed to have custody.

Clients receive statements from their qualified custodian at least quarterly. We urge our clients to carefully review such statements and compare these official custodial records to the account statements that we provide. The statements we prepare may differ from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Clients should contact us immediately if any material discrepancies are discovered.

ITEM 16 – INVESTMENT DISCRETION

In most cases, our clients give us full discretion to buy and sell securities without prior approval according to the powers and instructions stated in their investment advisory agreements. With respect to such accounts, we hold a limited power of attorney to act without prior consultation.

We strive to make investment decisions on behalf of our clients in light of each client's individual investment objectives, restrictions and circumstances. From time to time this may result in situations where we are effecting investment decisions for one or more advisory clients that differ, in timing or otherwise, from investment decisions made by our firm for other advisory clients. For example, OCM LLC, OCM Inc. or a sub-adviser we employ may sell (or sell short) a particular equity security for certain advisory clients while holding a long position for other client accounts in the same security or a security that is convertible or exchangeable into that same security. Furthermore, certain of our advisory client accounts may hold long positions in a security while other accounts, or the accounts of a sub-adviser, may hold short positions in the same security at the same time.

Clients with separately managed accounts may elect to constrain our discretionary authority via additional custom restrictions or guidelines so long those guidelines are provided to us in writing and we agree to accept them.

ITEM 17 – VOTING CLIENT SECURITIES

As a discretionary investment adviser for its clients, our firm will generally vote (except to the extent that a client otherwise instructs us in writing) in all matters for which a shareholder proxy is solicited by, or with respect to, issuers of securities beneficially held in client accounts. Our utmost concern is to make decisions in the best interest of our clients, and we will seek to act in a prudent and diligent manner intended to enhance the economic value of the assets in each client's account.

Unless a client otherwise instructs us in writing, we will vote as we deem appropriate in accordance with our written policies and procedures. We currently utilize the services of a third-party proxy voting service, Institutional Shareholder Services ("ISS"), to provide, or assist in the development of, proxy voting guidelines and to track and vote proxies according to such guidelines. To the extent that a matter to be voted on is covered specifically by the guidelines, ISS will automatically vote these proxies in accordance with the guidelines. However, we recognize that some proxy proposals require special consideration, and in those situations we may make a case-by-case determination of the appropriate action. In those situations, the proxy proposals will be reviewed for material conflicts of interest, and if such material conflicts are identified, we will either abstain from voting or obtain client consent prior to voting the securities. A client may also direct us to use ISS or another independent source to provide the vote determination where a proposal raises a material conflict. Clients may obtain a copy of our proxy voting policies and procedures (including the current guidelines) and/or information on how we have voted past proxies by written request to our offices.

There may also be a variety of corporate actions or other matters for which shareholder action is required or solicited and with respect to which we may take action that we deem appropriate in our best judgment except to the extent otherwise required by agreement with the client. These actions may include, for example and without limitation, tender offers or exchanges, and class actions.

ITEM 18 – FINANCIAL INFORMATION

As a registered investment adviser we are required in this Item to provide you with information about any financial condition or financial commitment likely to impair our ability to meet our contractual and fiduciary commitments to our clients. We have no such financial conditions or commitments to disclose relevant to this item.