BUSINESS INSIDER

www.businessinsider.com July 22, 2020

PREMIUM

A high-growth fund manager returning 7 times more than his peers tells us how he's shifting from post-pandemic tech themes into 'real companies' – and shares 6 stock picks set to potentially win in the market's next phase

Marley Jay

- **James Callinan manages the Osterweis Emerging Opportunity Fund, which has soared 33% this year, while the typical fund in the category is up just 4%.**

- **Callinan told Business Insider he was beginning to de-emphasize work-from-home stocks that became market favorites after the coronavirus pandemic began and explained what he's bought more recently.**

- **He's been calling some of those companies "real businesses" because they're generally much less tech-oriented.**

At a certain point, a once unthinkable reality becomes reality, and the new normal is just ... normal.

There's widespread agreement that the ways people work from home and shop online seem to have changed dramatically and permanently over the past few months. But those new themes can't be the hot new thing forever.

Those new themes have done all right by James Callinan, the manager of the small-company-focused Emerging Opportunity Fund for Osterweis Capital Management.

Thanks in part to his skill at investing in those themes, the fund had returned 33.4% to investors year to date as of July 20, according to Morningstar. The typical small-cap growth fund returned 4.2% over the same period.

That's just the latest milestone in a huge run for the fund, as $10,000 invested at its inception on November 30, 2016, would have more than doubled to $22,171 today. The same amount invested with a broader index of small-cap growth stocks would have grown 15% to $11,493.

So there's strong evidence of Callinan's ability to invest in the right ideas before they take off. And in an exclusive interview, he told Business Insider he was slowly reducing his investments in the skyrocketing tech companies and putting more money into bargain-priced, less tech-oriented "real businesses."

OSTERWEIS CAPITAL MANAGEMENT

James Callinan

"These are companies that have not benefited from the bull market, so their stocks are in the same place they were maybe in February," he said. "These companies are reasonably priced versus — I think a lot of our winners have gotten to valuations that were at the upper end of our expectations."

Here are six of the real-world companies he's been investing in lately. Callinan added that several of them function as bets on the eventual recovery of the US economy, and specifically on the possibility of another federal recovery package.

(1) Brooks Automation

Callinan added the manufacturing and life-science equipment maker Brooks to his portfolio during the second quarter and made it one of his larger positions.

He described it as an "essential business" because it provides goods and services for a lot of critical tech and healthcare companies.

"It's a real company that makes things — it's much, much cheaper but still has maybe double-digit organic revenue growth based upon the orders from the semiconductor companies that are benefiting from work from home," he said.

(2) Aaron's

The lease-to-own retailer Aaron's plunged from more than $60 early this year to about $15 in March. And even though it's tripled in value since then, it's nowhere close to recovering all of its losses. But Callinan thinks it has a lot of potential.

"They're really doing well in two businesses," he said. "One is their own stores renting out TVs and furniture and appliances, but also they have an outsourced renting business through great retailers like Best Buy, where there'll be the leasing agent inside the store."

(3) Cavco Industries

Cavco Industries, a manufactured- and mobile-home builder that does most of its business in the South and Southwest, went through a stock nosedive in March and remains well off its early 2020 highs. Callinan said low interest rates were very helpful to its business and that its emphasis on rural areas differentiated it from other housing companies.

(4) Enova Financial

Enova is Callinan's way of getting access to the fintech industry while also addressing a highly contemporary problem: The company is an online-only lender serving people who urgently need cash.

"Enova is a company that lends money to the very low income worker in the United States," he said.

The company's revenue climbed 21% to $1.18 billion in 2019, and the stock looked like a bargain: Even after a recovery from its March lows, it's down 40% this year.

(5) Meta Financial Group

Callinan first bought Meta stock more than a year ago but has been building his position more aggressively since March. Even with a halting recovery in the past few months, the shares are still down almost 50% in 2020.

"They have this very low-cost payroll-card and gift-card processing business," he said. "They have this huge amount — $3 billion to $4 billion and growing at double digit rates a year — of depository franchise."

(6) FirstService

FirstService is another company where the rest of the market has come around to Callinan's way of thinking. It nosedived in March but has almost fully recovered and is up 11% so far this year.

"They cut lawns. They maintain gated communities," he said. "They've been rolling up that industry starting in Canada and then coming down to the United States."

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OSTERWEIS EMERGING OPPORTUNITY FUND

Business Insider

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The Fund's average annual total return for the one year, three year, five year and since-inception periods ending 6/30/2020 were as follows:

	1 Yr.	3 Yr.	5 Yr.	Since Inception (10/1/2012)
Osterweis Emerging Opportunity Fund	*22.83%*	*22.57%*	*14.78%*	*17.19%*
Russell 2000 Growth Index	*3.48%*	*7.86%*	*6.86%*	*11.33%*
Morningstar Small Cap Growth Category Average	*4.46%*	*10.08%*	*8.28%*	*N/A*

Gross/Net expense ratio as of 3/31/2020: 1.27% / 1.16%. The Adviser has lowered the expense cap to 1.10% and contractually agreed to waive certain fees through June 30, 2021. The net expense ratio is applicable to investors.

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.*

Performance prior to December 1, 2016 is that of another investment vehicle (the "Predecessor Fund") before the commencement of the Fund's operations. The Predecessor Fund was converted into the Fund on November 30, 2016. The Predecessor Fund's performance shown includes the deduction of the Predecessor Fund's actual operating expenses. In addition, the Predecessor Fund's performance shown has been recalculated using the management fee that applies to the Fund, which has the effect of reducing the Predecessor Fund's performance. The Predecessor Fund was not a registered mutual fund and so was not subject to the same operating expenses or investment and tax restrictions as the Fund. If it had been, the Predecessor Fund's performance may have been lower.

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positions in one or more sectors subjecting the Fund to sector emphasis risk. 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.

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

Click here to view the fund's most recent top ten holdings.

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It is not possible to directly invest in an index.

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