



Bridges Investment Management

Shareholder Letter

January 9, 2012

Dear Shareholder:

Review of 2011 and Outlook for 2012

Bridges Investment Fund had a total return of 0.62% for the one-year period ended December 31, 2011. By comparison, the S&P 500 had a total return of 2.11%, while the Russell 1000 Growth Index finished up 2.64% for the year. The Fund had total returns of 14.73%, 0.41% and 1.97% for the 3, 5, and 10 year periods ending December 31, 2011, compared to total returns of 14.11%, -0.25%, and 2.92% for the S&P 500, and returns of 18.02%, 2.50%, and 2.60% for the Russell 1000 Growth Index over the same periods of time. Three, five, and ten year returns are annualized. The Fund's gross expense ratio is 0.91%.

Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and the 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 stated above. Performance data current to the most recent month end may be obtained by calling 866-934-4700.

Stocks saw significant volatility in 2011, but ended the year little changed from where they started.

The S&P 500 finished the year with its smallest year-over-year change ever, closing at 1257.60 after starting 2011 at 1257.64. The index saw large volatility during 2011, reaching a high of 1370.58 in early May, and a low of 1074.77 in early October.

The volatility during the year was driven by a number of negatives, including a persistently high unemployment rate in the U.S., a worsening of the sovereign debt crisis and economic conditions in Europe, and a rancorous political environment in the U.S., particularly revolving around the federal budget deficit.

Corporate earnings in 2011 were well ahead of expectations, with the exception of the banking sector. At the outset of 2011, consensus earnings estimates for the S&P 500 for the year were \$92, which would have represented an 11% gain from the Index's 2010's earnings level of \$83.77. At the close of 2011, consensus earnings estimates for the S&P 500 are now \$97 for 2011, which would result in a 16% year-over-year advance.

Despite the strong corporate earnings performance in 2011, equity valuations continued to shrink, with the S&P 500's trailing P/E at 12.9x at year end, down from 15.0x at year end 2010. Essentially, strong corporate earnings in 2011 were offset by ongoing valuation compression, which has been in place since 1999, when the S&P 500 ended the year at 28.4x trailing earnings.

It is interesting to note that S&P 500 earnings will have almost doubled in the three years between December 31, 2008, and December 31, 2011, a far greater recovery than the 39%

increase in the S&P 500's price. The Index's price lag relative to the improvement in earnings has resulted in P/E multiple compression from 18.2x at year end 2008 to 12.9x today, even as the yield on 10 year Treasuries has fallen from 3.84% at year end 2009 to 1.87% at year end 2011.

We are constructive on the outlook for equity returns going forward, and our positive stance is largely based on valuations.

The three primary risk factors of 2011 – a below trend U.S. economic recovery, the debt crisis in Europe, and deep political divisions in the U.S. – remain concerns for 2012.

That said, we believe the equity valuations largely discount many of the apparent risks facing investors at present.

The S&P 500 trades at 12.9x trailing 2011 earnings, and at 11.6x consensus 2012 estimated earnings of \$107, the lowest valuations for the Index since 1989.

We believe fair value for the S&P 500 in 2012 approximates 1500-1600, or about 14-15x consensus estimated 2012 earnings.

Valuations for stocks may be understated by large and growing cash balances that in many cases are well above normal operating cash needs. While the excess liquidity can be a drag on short term profitability, it does provide managements with opportunities to enhance shareholder value through increased capital spending, research and development, dividend increases, and/or share repurchases.

While we do not know what the catalyst(s) could be to create improved investor sentiment toward stocks and higher equity valuations, we believe that over time, continued growth in business value should eventually be recognized by investors, especially if interest rates remain depressed.

Our Portfolio

The Fund's portfolio continues to be comprised primarily with companies with strong balance sheets, high levels of profitability, and a demonstrated ability to grow business value over the long run despite periodically challenging economic conditions.

During 2011, we tilted the Fund's portfolio in the direction of companies with relatively greater sensitivity to the economy, especially during the second half of the year as stock prices fell sharply between July and October. Our rationale was that 1) as stock prices declined, it made more sense to position capital for an eventual improvement in both economic conditions and investor sentiment, and 2) valuations led us in that direction – as 2011 unfolded, "safe" became more highly valued relative to "economically sensitive," in part because investors bid up valuations of consumer staple companies and utilities in search of dividend yield and lower stock price volatility.

The following table summarizes the changes we made in the Fund in 2011:

BRIDGES INVESTMENT FUND CHANGES FOR 2011

NEW BUYS:	ADDS:	TRIMS:	ELIMINATED:
Accenture	Amazon	Abbott Labs	Aflac
Autodesk	Anadarko Petroleum	Allergan	American Capital LTD
Cognizant Technology	Capital One	Altria	Autodesk
EMC	Carnival Corp	Capital One Express	Bank of America
Eaton	Caterpillar	Scripts	Best Buy
Ebay	Chesapeake Energy	Google	Celgene
Factset Research	Chevron	MasterCard	Cisco Systems
Perrigo	Directv	McDonalds	CME Group
Praxair	General Electric	Pepsico	Credicorp
Priceline	Ishares S&P Midcap 400	Roper	Disney
Schlumberger	Ishares S&P Small Cap 600	VISA	Dolby Labs
Stanley Black & Decker	McDonalds	Waters	Factset Research
Starbucks	Praxair		Fluor
Tiffany			Goldman Sachs
Verifone			Hewlett Packard
			JPMorgan Chase
			Microsoft
			Procter & Gamble
			Research in Motion
			Stanley Black & Decker
			Stryker
			Teva Pharmaceutical
			Transocean

Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

The companies that added the most value to the Fund in 2011 included Apple, Chevron, Google, MasterCard, McDonalds, Perrigo, Philip Morris International, Union Pacific, and Visa.

The companies that were the largest drag on performance in 2011 included Apache, BHP Billiton, Carnival, Chesapeake Energy, Credicorp, Express Scripts, Schlumberger, and Teva Pharmaceutical.

Overall, we believe the Fund's holdings are very attractively valued looking out over the next several years. At present, the Fund's portfolio trades at 13.0x estimated 2012 earnings and 11.3x estimated 2013 earnings, and have projected long term earnings growth of 11-13%. This compares favorable with the 12.8x 2012 P/E and 6-7% earnings growth projected for the S&P 500.

We believe that the Fund's companies should be well positioned to grow shareholder value at attractive rates in the future. The Fund's holdings have strong balance sheets, long track records

of generating above average financial performance for shareholders, attractive valuation characteristics, and good prospects for growing their business value over time.

Over time, we believe our companies should do well based on a combination of 1) continued solid growth in underlying business value if revenues, earnings and free cash flow grow, and 2) if valuations expand toward historical norms. The average price earnings multiple on our companies on estimated 2012 earnings is about 13x versus an average P/E of over 20x over the past decade.

We will continue to focus on owning in the Fund those companies with what we feel are the best combination of strong business franchises, good growth prospects and attractive valuation metrics. We expected stock market volatility in 2012 to be above average, as was the case in 2011, given economic weakness and credit markets concerns in Europe, and the slower than normal economic recovery in the U.S.

It is our belief that equity valuations currently discount U.S. and global economic risks, and that over time, equity valuations can expand as economic conditions eventually stabilize and improve. We anticipate using interim periods of stock market weakness to improve the portfolio's quality and exposure to companies that can show good growth in business value in a business environment that may remain challenging over the next several years.

We appreciate your investment in the Fund and welcome any questions you may have about the portfolio.

Sincerely,

Edson L. Bridges III, CFA
President and Chief Executive Officer

Opinions expressed herein are those of Edson L. Bridges III and are subject to change. They are not guarantees and should not be considered investment advice.

The S&P 500 Index is a broadly based unmanaged composite of 500 stocks which is widely recognized as representative of price changes for the U.S. equity market in general. The Russell 1000 Growth Index is an unmanaged composite of stocks that measures the performance of the stocks of companies with higher price-to-book ratios and higher forecasted growth values from a universe of the 1,000 largest U.S. companies based on total market capitalization.

You cannot invest directly in a specific index.

Fund holdings are subject to change and should not be considered a recommendation to buy or sell any security. Please refer to the Schedule of Investments for complete information on holdings in the Fund.

Mutual fund investing involves risk. Principal loss is possible. Small- and medium-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. The Fund invests in foreign securities which involve political, economic and currency risks,

greater volatility and differences in accounting methods. Earnings Growth Rate is not a measure of the Fund's future performance.

Price Earnings Ratio (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings.

Cash Flow is a measure of a company's financial health. Equals cash receipts minus cash payments over a given period of time.

Earnings Growth is a measure of growth in a company's net income over a specific period, often one year.

This report has been prepared for the information of the shareholders of Bridges Investment Fund, Inc. and is under no circumstances to be construed as an offering of shares of the Fund. Such offering is made only by Prospectus.

The Bridges Investment Fund is distributed by Quasar Distributors, LLC.

This report must be preceded or accompanied by a Prospectus.