

S&P 500 2,674
10 Year Treasury 2.40%

The following table summarizes total returns for a range of asset classes for the fourth quarter of 2017, full year 2017, and since year-end 2008, which marked the approximate bottom of the 2008-09 financial crisis:

Asset Class	Q4	2017	Cumulative Since 2008	Annualized Since 2008
S&P 500	6.64%	21.82%	258.50%	15.24%
S&P 400 Midcap Index	5.83%	16.23%	304.76%	16.81%
S&P 600 Small Cap Index	3.57%	13.15%	290.19%	16.33%
MSCI World Index Ex U.S.	5.05%	27.77%	130.71%	7.65%
MSCI Emerging Markets	7.09%	37.51%	159.97%	11.20%
Barclays U.S. Aggregate Bond Index	0.39%	3.54%	40.73%	3.87%

In 2017, equities outperformed bonds for a seventh consecutive year. This equity friendly environment delivered positive stock returns, as measured by the total return of the S&P 500 Index, every month last year for the first time in history.

International stocks were the best-performing equity asset class in 2017, ending a multi-year stretch where international equities lagged domestic stock returns. Emerging market equities returned 37.51%, while international stocks returned 27.77% in the aggregate.

Domestic equity returns were also strong. The S&P 500 returned 21.82%, while midcap stocks returned 16.23% and small cap equities advanced 13.15%.

Corporate earnings growth exceeded consensus expectations during 2017, and that was the primary factor driving positive equity returns. Corporate earnings have shown solid sequential improvement since the first quarter of 2016, and stock prices have responded; from the equity market low of February 11, 2016, the S&P 500 has a total return of 52%.

Corporate earnings remain the most important variable in the 2018-19 outlook. Tax reform legislation passed in December should benefit corporate earnings in 2018 and beyond, and provide a tailwind for stocks.

We have established a 2018 year-end fair value target range of 2,700-3,100 for the S&P 500 (about 19.0x estimated 2018 earnings of \$150-157), which implies upside of roughly 8-10% from the S&P's 2017 year-end level of 2,674. Our preliminary year-end 2019 fair value target range is 2,875-3,325 (19.0x estimated 2019 earnings of \$164-170). Our single point year-end fair value estimates for 2018 and 2019 are 3,000 and 3,200, respectively.

Equity market volatility in 2017 was historically low. We expect an increase in day-to-day stock price volatility in 2018, and while we believe fair value for the S&P 500 for year-end 2018 to be around 3,000, we would not be surprised if the S&P 500 traded in a much wider range over the course of the year; a return to more normal levels of stock price volatility could result in a trading range of 2,200-3,200.

Given the strong returns for stocks in 2017, and since the market low of March 2009, investors should be mindful that stocks are not cheap. Stock valuations appear to be reasonably close to our estimate of "fair value": valuation risk entering 2018 is the highest since the previous cyclical equity market peak in October of 2007. Our primary focus remains on identifying companies with strong business franchises, good prospects for business value growth over time, and attractive valuations.

We believe current stock valuations imply mid to high-single digit returns over the next five years, and given our expectation that stock price volatility is likely to rise going forward, our approach to stocks will be measured. Positive returns for stocks in 2018 will be dependent on both continued earnings progress, and a willingness on the part of investors to pay mid-to-high teens (or low 20's) multiples for equities. A 10-20% equity market correction in 2018 would materially reduce valuation risk and improve forward-looking returns.

Risks to our generally constructive outlook for equities include: 1) a significant slowdown in corporate earnings growth; 2) faster than anticipated inflation (consensus inflation expectations are currently the lowest in many years); 3) a change in prevailing investor sentiment from "constructive" to "concerned" (i.e. investor unwillingness to pay high-teens or low 20's multiples for stocks); 4) a deterioration in the domestic political climate around the 2018 mid-term elections; 5) slow or no progress by the Trump Administration against stated policy objectives and/or an exodus of the Administration's key leaders; and 6) a resumption/worsening of global terrorist activity.

Short-term interest rates rose considerably during 2017, as the Fed began to raise interest rates, while the 10-year Treasury yield fell slightly from 2.45% at year-end 2016 to 2.40% at year-end 2017, after bottoming at 2.04% in early September. In the flattish interest rate environment of 2017, bond returns approximated their coupons.

We believe the outlook for bond returns going forward remains relatively unattractive (although a bit less so than over the past several years) because: 1) nominal and real interest rates remain near historic lows, and 2) we believe that interest rates are likely to continue to work higher over the next several years from the historic lows reached in mid-year 2016. We would become more constructive on bonds when nominal and real interest rates rise from current levels, and when credit spreads widen.

We remain defensively positioned in fixed income portfolios but we plan to extend bond portfolio durations as interest rates move higher. The current flat shape of the yield curve provides little incentive to take on unnecessary interest rate risk.

Our key investment themes for 2018 include:

1. Valuation - as interest rates rise, how will equity investors respond in terms of their willingness to support the highest equity valuations since the late 1990's?
2. Corporate earnings and tax reform - how will corporate earnings be affected by tax reform, and how will corporations use the windfall to build business value for shareholders?
3. Passive versus active investment - will investors continue to express a strong preference for passive/indexed approaches over active investment management? Will that trend eventually create opportunities for active managers to exploit?
4. Growth stocks (+30%) significantly outperformed value stocks (+14%) in 2017, the widest spread in favor of "growth" since 2009. Since year-end 2008, growth (+321%) has substantially bettered value (+214%). Value showed signs of closing the gap at year-end. Will 2018 be a transition year between growth and value?
5. Volatility - 2017 was marked by historically low stock price volatility - how will investors react to a more normal level of stock price volatility?

In sum, we believe stocks remain more attractive than bonds, both for 2018, and over the next three to five years. That said, the strong performance of stocks since early 2016 has narrowed the implied return spread between stocks and bonds considerably.

We expect 2018 to be a challenging year for investors, characterized by significant bond and stock price volatility, as volatility reverts to more normal levels. If corporate earnings show continued solid growth in 2018 (which we anticipate), we think that stocks will outperform bonds on balance, given current valuations and the intermediate and long-term total returns implied by those valuations.

We encourage you to contact us if you would like to talk about your portfolio and our 2018-19 outlook in detail.

We appreciate your ongoing support and offer our best wishes for a happy and healthy 2018!

Ted Bridges, CFA
President

The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The statutory and summary prospectus contains this and other important information about the investment company; any may be obtained by calling 1.866.934.4700 or by visiting www.bridgesfund.com. Read it carefully before investing.

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. Investing in value stocks presents the risk that value stocks may fall out of favor with investors and underperform other asset types during given periods. Equities, bonds, and other asset classes have different risk profiles, which should be considered when investing. All investments contain risk and may lose value.

Earnings growth is not a measure of the Fund's future performance.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general.

The S&P MidCap 400 Index, more commonly known as the S&P 400, is a stock market index from S&P Dow Jones Indices. The index serves as a barometer for the U.S. mid-cap equities sector and is the most widely followed mid-cap Index in existence.

The S&P 600 SmallCap Index measures the small cap segment of the U.S. equity market.

The MSCI World Index – ex U.S. is a stock market index of 1,643 'world' stocks. It is maintained by MSCI Inc., formerly Morgan Stanley Capital International, and is used as a common benchmark for 'world' or 'global' stock funds. The index includes a collection of stocks of all the developed markets in the world, as defined by MSCI.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 23 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

The Barclays U.S. Aggregate Bond Index is a broad based index maintained by Barclays Capital, and is often used to represent investment grade bonds being traded in the United States.

Fair value is a rational and unbiased estimate of the potential market price of a good, service, or asset.

Duration is a measure of the sensitivity of the price -- the value of principal -- of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Bond prices are said to have an inverse relationship with interest rates. Therefore, rising interest rates indicate bond prices are likely to fall, while declining interest rates indicate bond prices are likely to rise.

It is not possible to invest in an index.

Past performance does not guarantee future results.

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

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