BRIDGES | INVESTMENT MANAGEMENT

October 10, 2024

The Bridges Investment Fund had a total return of 4.97% in the third quarter of 2024, compared to the 5.89% total return for the S&P 500 over the same period. Year to date in 2024, the Fund had a total return of 24.02%, versus 22.08% for the S&P 500.

For the twelve-month period ended September 30, 2024, the Fund had a total return of 38.33% versus 36.35% for the S&P 500. For the three-year period ended September 30, 2024, the Fund had an average annual total return of 10.45%, versus 11.91% for the S&P 500. For the five-year period ended September 30, 2024, the Fund had an average annual total return of 16.61% versus 15.98% for the S&P 500. For the ten-year period ended September 30, 2024, the Fund had an average annual total return of 12.88% versus 13.38% for the S&P 500. The Fund's expense ratio is 0.73%

Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of the investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The 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.

The Fund's performance has been helped in 2024 by strong performance of its largest holdings, particularly companies in the information technology sector, including Nvidia, Meta Platforms, and Apple. Fund holdings in the financials sector have also been contributors to performance, particularly Progressive and Berkshire Hathaway. We believe the stock price performance of these businesses has been commensurate with financial performance; however, valuations are creating a higher hurdle for near-term execution.

The S&P 500 advanced 5.98% during the third quarter, bringing its year-to-date total return to 22.08%. Over the past two years, the S&P 500 is up more than 60%, propelled by strong earnings growth and an expansion in equity valuations. We believe valuations have expanded as investors re-price businesses for above-average earnings growth, including expectations over the next year. While results have thus far lived up to expectations, this poses a high hurdle for upside surprises over the next year.

At present, consensus earnings estimates for S&P 500 earnings are $240 for 2024, implying 10% growth, and $276 for 2025, implying a further 15% growth next year. The S&P 500 closed the third quarter at 5,762, implying a price-to-earnings multiple of 20.9x 2025 earnings, a valuation level that we believe is reasonably close to long-term “fair value” given the trajectory of earnings growth and evolving sector composition of the market.

The Fed has started to shift its monetary policy to be more accommodative following a material decline in inflation and softening employment data. Expectations for future interest rate cuts, along with resilient economic growth, may also be boosting near-term sentiment for stocks.

For the first six months of the year, stock market performance was relatively narrow, driven by superior earnings strength and performance of mega-cap technology stocks. Only 25% of stocks in the S&P 500 managed to outperform the index in the first 6 months of the year, the lowest since 1999. Over 60% of stocks outperformed the index in Q3, the highest level since 2002.

We would attribute at least part of this change to interest rates moving lower, as rate-sensitive sectors tended to outperform. In any case, this looks to be a healthy rotation in what has been a very strong two-year run for the stock market. As we look out into 2025, earnings growth is expected to broaden out, which may support more expansive market participation, assuming results live up to expectations.

As we approach the election and potential for tax policy changes in 2025, we would expect volatility in the stock market to remain relatively elevated. High earnings expectations, the potential for resurgent inflation, and geopolitical risk also present risks to the near-term outlook for the market.

While the near-term outlook is uncertain, as is typically the case, we believe that the Fund’s investment results will ultimately be a function of the long-term financial performance of the businesses that we own.

As such, we continue to seek companies that have durable competitive advantages, meaningful growth opportunities, and managements that have a demonstrated ability to increase shareholder value over time through disciplined capital allocation. We also favor companies with high quality balance sheets that may help to navigate through more difficult economic environments.

We look to purchase and hold these businesses at valuations that we believe are sensible given their qualitative and quantitative attributes. While valuations have risen for the market as a whole, this has primarily been driven by a subset of mega-cap technology companies. We have more recently found better opportunities to deploy capital “down market” in smaller businesses that still fit our fundamental criteria. Small and mid-cap stocks currently trade at large discounts to large caps, and could have an opportunity for an improvement in relative earnings strength in the coming years.

We appreciate your investment and patience as we navigate a more volatile period for Fund performance. We continue to be very constructive about the long-term prospects for the businesses we own.

Jack Holmes
Chief Investment Officer

Must be preceded or accompanied by a Prospectus.

The opinions expressed herein are those of Jack Holmes 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. You cannot invest directly in a specific index.

Fund holdings are subject to change at any time and are not recommendations to buy or sell any security. Current and future holdings are subject to risk. Click here for the Fund's Top 10 Holdings

The price-to-earnings ratio is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS). EPS is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

Earnings growth is not representative of the fund's future performance.

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.

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