BRIDGES | INVESTMENT MANAGEMENT

January 15, 2025

Performance

Bridges Investment Fund had a total return of 27.80% for the one-year period ending December 31, 2024. By comparison, the S&P 500 had a total return of 25.02% during 2024. The Fund had annualized total returns of 8.15%, 15.03%, and 12.87% for the 3, 5, and 10-year periods ending December 31, 2024, compared to annualized total returns of 8.94%, 14.53%, and 13.10% for the S&P 500. The Fund's gross 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 an 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.

Review of 2024 and outlook for 2025

The U.S. stock market posted another upside surprise in 2024, with a second straight year of total returns greater than 25% for the S&P 500 index.

Similar to 2023, market leadership remained relatively narrow with the top 10 companies of the index being responsible for a disproportionate share of 2024 returns. As of December 31, 2024, the top 10 companies of the index comprised nearly 39% of the S&P 500, the highest level in several decades.

Rising concentration also meant the average stock meaningfully underperformed the S&P 500 index in 2024, as was the case in 2023. The S&P 500 equal-weight index posted total returns of 13.8% in 2023 and 13.0% in 2024, compared to the S&P 500 (market-cap weighted) total returns of 26.3% in 2023 and 25.0% in 2024.

Part of this growing index concentration can be attributed to rising valuations for the market's leaders, but we would attribute most of it to the relative earnings strength of the largest companies. We expect earnings breadth to improve in the coming years, which would likely result in more expansive return attribution, if that is the case.

Despite interest rates remaining elevated for most of 2024, stock valuations expanded throughout the year. The 10-yr Treasury yield increased from 3.88% at the end of 2023 to 4.58% at the end of 2024, and the S&P 500 ended the year trading at 21.5 times forward earnings.

This valuation expansion is likely the result of relative strength in corporate earnings, and the constituent makeup of the S&P 500 index. We believe earnings estimates may be slightly optimistic, with consensus calling for double-digit earnings growth in 2025 and 2026, following the 9% earnings growth expected in 2024.

At least some of this optimism is likely being supported by expectations for artificial intelligence ("A.I.") and the potential benefits towards economic productivity and corporate profitability. Thus far, the economics have primarily flowed to the companies benefiting from the buildout of A.I. infrastructure, with a further acceleration of spending expected in 2025. The eventual return on these investments could be a major determinant of corporate earnings growth in the years to come.

Over the past five years, the S&P 500 produced an annualized total return of 14.5%, a period that included two separate market declines of more than 25%, one triggered by a global pandemic and unprecedented economic standstill, the other by the inflation surge that followed. In a period not devoid of reasons to be cautious, the S&P 500 was able to post total returns greater than 25% in three of those five years.

Looking forward, the implied hurdle rate for stocks appears to be much higher, broadly speaking, with where valuations are today. As a result, our own base return expectations for U.S. large cap equities are meaningfully lower for the back half of this decade.

While our overall expectations are somewhat muted, we also believe that strong businesses tend to surprise to the upside over time. We remain focused on owning businesses with sustainable competitive advantages, long reinvestment runways with above-market growth, and reasonable valuations.

Our Portfolio

The Fund's investment philosophy is based on our belief that companies having durable competitive advantages and significant opportunities to grow over long periods of time can compound returns earned on their equity capital while driving growth in shareholder value at attractive rates.

As such, our investment process focuses on identifying businesses that clearly demonstrate the elements that we believe are most important in our investment philosophy:

1. High quality business – as evidenced by a strong balance sheet, and a demonstrated ability to generate free cash flow
2. Durable competitive advantage – as evidenced by the ability to earn high returns on equity capital over many years.

3. Shareholder friendly management that uses adroit capital allocation skills to grow a business' intrinsic value.
4. Opportunities to leverage competitive advantage by competing in markets that appear to have long runways for growth, and/or the opportunity to meaningfully increase market share in slower-growing markets.
5. Are available at valuations that are sensible given the elements outlined above, and that trade near, or well below, our estimate of "fair value" over a long investment horizon.

Consistent with our investment philosophy and our investment process, the Fund's portfolio, while subject to change, is comprised primarily of companies with strong balance sheets, high levels of profitability, and a demonstrated ability to grow free cash flow and business value over the long-term despite periodically challenging economic conditions.

The Fund's ten largest individual stock holdings as of December 31, 2024, were:

Amazon	9.4%
Microsoft	9.1%
Alphabet	8.4%
NVIDIA	7.8%
Apple	7.5%
Mastercard	4.3%
Meta Platforms	4.3%
Palo Alto Networks	4.1%
Visa	3.5%
ServiceNow	3.2%

The following table summarizes the major changes we made in the Fund in 2024:

New Buys:
Autozone
Cadence Design Systems
Cintas
Floor & Décor Holdings
United Rentals

Adds:
Intuitive Surgical
Lithia Motors
Pool Corporation
Zoetis

Trims:
Adobe
Alphabet

Apple
Berkshire Hathaway
Blackrock
JP Morgan Chase & Co.
Mastercard
Microsoft
NVIDIA
S&P Global
ServiceNow
Thermo Fisher Scientific
Union Pacific
Visa

Sells:
American Tower Corporation
Chemed
Generac Holdings
Home Depot
PayPal Holdings
Ulta Beauty

The companies that were the most additive to the Fund's 2024 returns included NVIDIA, Amazon, Meta Platforms, Alphabet, and Apple.

The companies that were the largest drag on the Fund's 2024 returns included Adobe, Old Dominion Freight Line, Ulta Beauty, Floor & Décor Holdings, and Union Pacific.

We believe the Fund's holdings are reasonably valued looking out over the next several years. We also believe that the higher average return on equity for the Fund's holdings is an indication of quality and profitability as compared to the S&P 500. At present estimates, the Fund's portfolio trades at 25.5 times estimated 2025 earnings with an average return on equity of 34.3%, which compares with the 21.2 times estimated 2025 earnings and 29.4% return on equity for the S&P 500.

With Gratitude

In closing, we wanted to take a moment to express our gratitude to Ted Bridges, former CEO & CIO of Bridges Investment Management, and his 40+ years of stewardship of the Bridges Investment Fund.

At the end of 2024, Ted left his day-to-day responsibilities at Bridges Investment Management to serve as the Chief Investment Officer for the Suzanne & Walter Scott Foundation. While we will miss his experience and guidance, we are grateful for the impact he will continue to make in his new role within the philanthropic community as well as his continued involvement as a shareholder and director of Bridges Holding Company.

We also wanted to express our gratitude for your support and continued investment in the Bridges Investment Fund. We remain committed to the long-term tenets of the Fund's investment philosophy and believe the Fund's holdings are well positioned to continue compounding shareholder capital in the decades to come.

Sincerely,

Jack Holmes, CFA
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.

Holdings are subject to change and are not a recommendation to buy or sell any security.

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.

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.

Cash Flows: The total amount of money being transferred into and out of a business, especially as it affects liquidity.

Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. Free cash flow (FCF) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

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.