BRIDGES | TRUST

January 7, 2020

Dear Bridges Trust Client:

Below is our Market Commentary from Bridges Investment Management's, Investment Committee as of the quarter ending December 31, 2019.

As we close the books on 2019, we're also marking the end of a decade, an occasion that seems to warrant comment. Thinking back to late 2009, equities weren't exactly in favor. Many investors had just experienced the worst losses in a generation, and societal trust in capital markets was at least bruised if not outright battered. True, the price of the S&P 500 was up 67% from the March lows, but still, 29% below its 2007 high, and the path to normalization seemed precarious at best. The outlook was murky, confidence scarce and equities were seldom mentioned at cocktail parties, at least not in polite society.

Fast forward 10 years and those with the conviction to own U.S. equities, as represented by the S&P 500 with reinvested dividends, were rewarded with a 257% total return. Annualized, that's 13.6%, making the Teens the fifth-best decade since 1880.

Like most eras, this one came with plenty of opportunities for worry; financial markets on life-support, the European debt crisis, an oil bust, and a trade war, to name a few. But those who stayed invested in U.S. equities went on to enjoy the longest expansion on record without a single bear market. Defined as a decline in securities prices of 20% or more from recent highs, the Teens are the only decade besides the 1990s without one. In short, since the dark days of 2009, not only have equity returns been historically good, they've been historically calm.

The response to the Financial Crisis could be compared with a grand experiment, quantitative easing of a size and scale never contemplated, let alone attempted. Doubters were many. Fiscal hawks took to crying inflation in crowded theaters, warning that today's profligacy would saddle future generations with unsustainable debt. Gold bugs and crypto hawkers cast doubt on the integrity of central banks and their ability to manipulate the yield curve. And the world was introduced to negative interest rates, a phrase we still find among the more nonsensical in finance.

Despite ample naysaying, extreme caution and forecasts of financial doomsday, we believe one of the most significant experiments in monetary intervention has ended up (dare we say it?) working, and without much in terms of unintended consequences. Many feared that aggressive easing of monetary policy would lead to euphoria, when in fact, it's led to its opposite. We're hard-pressed to remember a time when returns have been this good and sentiment this dour. While it's true the pace and magnitude of economic growth has been slower and shallower than most recoveries, GDP growth has been steady if unimpressive, running neither too hot to stoke inflation nor too cool to trigger a recession. Unemployment has hit a 50-year low and consumer debt seems well-managed. The U.S. looks healthy relative to its global peers, in our opinion, who are fighting demographic stagnation, a messy divorce à la Brexit or outright capital flight. And let's not forget the Tax Cut and Jobs Act of 2017, which created a step-change in U.S. corporate earnings.

Because many expect business cycles to follow historical playbooks and this is the longest expansion on record, every tea leaf is being thoroughly examined for signs of the next recession. We explored the topic in both the second and third quarter Market Commentaries. Rather than rehash our arguments, we'll repeat our conclusions:

1. Recessions are inevitable.
2. Predicting them is hard.
3. Only buy equities you'd be comfortable holding through a recession because sooner or later, you will.

Coinciding with a brief inversion in the yield curve, August saw the predicted odds of a recession-hit a post-crisis high. This metric remains elevated but has since retreated thanks to two recent developments. First, the Fed cut rates twice, and the White House announced Phase One of a trade deal with China. As we've been saying all year, interest rates and trade were likely to be the drivers of equity returns, both in the near-term and for the foreseeable future.

While equity owners cheered these developments and indices marched to new highs, we feel it is only fair to point out that neither is a comprehensive solution to intractable issues facing the U.S. The first, why is an economy operating at close to full-employment with the easiest monetary policy in a generation unable to approach targeted inflation or tolerate a Federal Funds rate much over 1.75%? And second, how does one gracefully resolve trade imbalances when businesses have spent decades building supply chains dependent on low-cost geographies?

These are not simple questions easily solved, so while the market currently enjoys a temporary reprieve from its most-pressing fears, we think a victory lap might be premature. Plus, we try to remain circumspect, knowing we've just come through an extremely favorable decade to be an equity owner. Returns were high, volatility low, and while there were a few pockets of capital destruction (energy comes to mind), we would caution you not to expect more of the same in the decade to come. Our valuation work suggests forward equity returns are likely in the 7-9% range, as opposed to the 13% of the Teens, almost certainly with more volatility. While credit defaults have been historically low, we would expect them to increase over the next 10 years and are working towards allocating your capital accordingly, favoring strong balance sheets and more credit-worthy borrowers.

While an outlook of 'less good, but still decent' is faint praise, we firmly believe that equities are the most attractive asset class in a world destined for lower returns. We've tried to select businesses with competitive advantages, long reinvestment runways, above-market growth, and reasonable valuations and will continue with this strategy in the future. While they may not enjoy the identical tailwinds of the past 10 years, strong businesses tend to find a way to thrive, regardless of the environment. We thank you for your confidence and appreciate your business.

The Bridges Investment Management Investment Committee

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.

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

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

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

Past performance does not guarantee future results. Index performance is not indicative of fund performance. To obtain fund performance visit <web address> or call <phone>.

DISCLOSURES AND IMPORTANT INFORMATION

This communication is provided to clients of Bridges Trust Company, Bridges Trust Company of South Dakota and Bridges Investment Management, Inc. for informational purposes only and is not a recommendation to purchase, hold, or sell any security. We believe the information presented is reliable, but we do not guarantee its accuracy. Each investor's situation is unique, so please work with your Investment Adviser or Trust Officer to develop an individualized investment plan before investing.

Bridges Trust Company and Bridges Trust Company of South Dakota utilize the investment management services provided by Bridges Investment Management, Inc. and certain individual clients also utilize investment management services directly with Bridges Investment Management Inc.

"Bridges Trust" and its logo reference independent services offered by Bridges Trust Company, Bridges Trust Company of South Dakota, and Bridges Investment Management Inc. Trust, custody and related services are provided by Bridges Trust Company, a trust company chartered through the Nebraska Department of Banking and Finance, and Bridges Trust Company of South Dakota, a trust company chartered through the South Dakota Banking Commission.

Investment management services are provided by Bridges Investment Management, Inc., an investment adviser registered with the SEC, with further information available at www.adviserinfo.sec.gov/firm/108028 and www.bridgesinv.com. The registration of an investment adviser does not imply any level of skill or training.

The S&P 500 Index is a broad-based unmanaged composite of 500 stocks, which is widely recognized as representative of price changes for the U.S. equity market in general, and you cannot invest directly in a specific index.

Past performance is no guarantee of future results.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS
This communication may contain forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate," "project," and "continue" or similar words.

We believe it is essential to communicate our expectations to our clients. However, there may be events in the future that we are not able to predict accurately or over which we have no control. Actual results or actual business or other conditions may differ materially from those contemplated by any forward-looking statements, and we are not under any duty to update the forward-looking statements contained herein. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

A bear market is a condition in which securities prices fall 20% or more from recent highs amid widespread pessimism and negative investor sentiment. Typically, bear markets are associated with declines in an overall market or index like the S&P 500. Still, individual securities or commodities can be considered to be in a bear market if they experience a decline of 20% or more over a sustained period - typically two months or more.

CAUTIONARY STATEMENT REGARDING THIRD PARTY INFORMATION
This communication includes financial information, market data, and certain other statistical information and estimates based on reports and other materials prepared by other independent sources, as well as management's own good faith estimates and analyses. We believe this third-party information to be reputable but have not independently verified it. Information that is based on estimates, forecasts, projections, market research, or similar methodologies or assumptions is inherently subject to uncertainties, and actual events or circumstances may differ materially from events and circumstances reflected in this information.