

July 8, 2022

Bridges Investment Fund had a total return of -19.75% in the second quarter of 2022, which trailed the -16.10% decline in the S&P 500 over the same period. For the twelve-month period ended June 30, 2022, the Fund had a total return of -18.38% versus a -10.62% total return for the S&P 500. For the three-year period ended June 30, 2022, the Fund had an average annual total return of 9.25% versus 10.60% for the S&P 500. For the five-year period ended June 30, 2022, the Fund had an average annual total return of 10.58% versus 11.31% for the S&P 500. For the ten-year period ended June 30, 2022, the Fund had an average annual total return of 11.57% versus 12.96% for the S&P 500. The Fund's expense ratio is 0.72%.

*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. 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.*

U.S. equities declined sharply during the second quarter of 2022, as investors reacted negatively to a confluence of risk factors: rising interest rates, continued higher than expected inflation data, the ongoing conflict in the Ukraine, sharply higher oil prices, and widening credit spreads.

Against this backdrop, the S&P 500 fell 16.10% during the second quarter, bringing its total return to -19.96% year-to-date, the fourth worst start for the U.S. equity market in history.

In our view, the difficult first half was primarily the result of investors materially reducing their willingness to pay for future corporate earnings and cash flows. At the start of 2022, the ten-year Treasury yielded 1.51%; it ended the first half of 2022 yielding 3.02% - a doubling in six months.

Equity valuation metrics are ultimately an estimate by investors of the net present value of all future cash flows that might be earned by a business. As interest rates rise, the net present value of a company's future cash flows declines: higher interest rates reduce the current value of future earnings. Stocks are very long-duration assets because they have the potential to earn cash flows well into the future. Their long duration makes equities particularly sensitive to changes in interest rates over time.

Equity valuations benefitted from the decline in interest rates in recent years, which, in addition to rising corporate earnings as the economy recovered from the pandemic-induced recession, drove stock prices higher.

The yield on the ten-year Treasury bottomed in July of 2020 at 0.53%. The ten-year Treasury yield reached 3.23% in mid-June this year, a substantial increase that has led to a material contraction in equity valuations. The P/E on the S&P 500 's 2023 earnings estimate stood at 21x at the beginning of 2022; it was 15x on June 30. Essentially, the contraction in equity valuations was roughly equivalent to, if not slightly more, than the overall decline in the S&P 500 during the first half of the year.

While valuations are an important component of the return investors earn over time, we believe that ultimately, corporate financial performance matters the most to investors, because equity valuations tend to mean revert over time (i.e., move back toward their long-term average, which is about 16-18x earnings).

Consequently, while we seek to understand equity valuations and develop assessments of the “fair value” of a business based on an estimated valuation multiple of a company’s profits or free cash flow that we believe is appropriate given the quality and growth characteristics of that business, it is the long-term compounding of a company’s profits, dividends, and free cash flows that eventually drives shareholder returns.

The Fund’s companies have executed very well over the past several years, heading into, in, and exiting the global recession that was brought on by the pandemic in early 2020, notwithstanding exceptionally challenging economic conditions that have included a rapid transition to remote working, fractured supply chains, product shortages, a very difficult labor market, and sharply higher inflation.


Our companies have generally met, or exceeded, consensus expectations for revenue, earnings, and free cash flow growth. During 2020, higher quality companies were rewarded for strong financial performance; thus far in 2022, higher quality companies have lagged the broader market, notwithstanding continued strong business performance. The relatively poor performance of higher quality companies to date in 2022 has been surprising given it’s been against the backdrop of difficult and volatile economic and market conditions.

While frustrating in the short run (the Fund’s strong performance in 2020 and 2021 has given away to disappointing performance in 2022), we believe that the sharp contraction in the valuations of many of our companies over the past eighteen months sets the stage for better absolute and relative performance in coming years. Our belief is that over the long run, our companies will continue to generate solid business results, and those results will eventually be reflected in their share prices (as was the case between 2015-2021, when many of the Fund’s holdings enjoyed share price advances that roughly tracked their growth in operating metrics and business value growth).

We continue to focus on identifying and owning companies that have: 1) durable competitive advantage, 2) a demonstrated ability to drive solid financial performance across a variety of economic conditions, 3) attractive opportunities to grow, and 4) sensible valuations.

While we expect continued volatile capital markets conditions in the second half of 2022, we have a high degree of confidence in the ability of our companies to achieve good financial results over the long run, and we expect that shareholder returns will eventually reflect those operating results.

We are appreciative of your investment in the Fund, and we are grateful for your patience during difficult market conditions; we continue to be constructive about the long-term prospects for the Fund's holdings.

A handwritten signature in black ink that reads "Ted Bridges". The signature is written in a cursive, slightly slanted style.

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

Must be preceded or accompanied by a Prospectus.

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

Diversification does not assure a profit nor protect against loss in a declining market.

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

**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 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. It is not possible to invest directly in an index.

Free Cash Flow is earnings before depreciation, amortization, and non-cash charges minus maintenance capital expenditures.

Fund holdings are subject to change and should not be considered a recommendation to buy or sell any security. For a complete list of Fund holdings, please [click here](#) and for the Top Ten Holdings List please [click here](#).

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