BRIDGES | INVESTMENT FUND, INC.

October 11, 2022

Bridges Investment Fund had a total return of -6.48% in the third quarter of 2022, which trailed the -4.88% total return for the S&P 500 over the same period. For the twelve-month period ended September 30, 2022, the Fund had a total return of -24.28% versus -15.47% for the S&P 500. For the three-year period ended September 30, 2022, the Fund had an average annual total return of 6.60% versus 8.16% for the S&P 500. For the five-year period ended September 30, 2022, the Fund had an average annual total return of 8.10% versus 9.24% for the S&P 500. For the ten-year period ended September 30, 2022, the Fund had an average annual total return of 10.15% versus 11.70% 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.

The S&P 500 declined 4.89% during the third quarter, bringing its year-to-date decline to 23.88%. Equities have been battered by a litany of challenges and risks during 2022, including aggressive tightening by the Fed, persistently stubborn inflation, ongoing war in the Ukraine, and more recently enough slowing in some economic data to suggest that the U.S economy might be headed toward a recession.

Consensus earnings estimates for the S&P 500 for 2022 and 2023 have begun to decline as analysts are beginning to assess the impact of the Fed's tightening on the economy and corporate earnings.

Equity valuations have declined markedly since the beginning of 2022.

In January, the S&P 500 at $4,800 traded at 21x estimated 2022 earnings of $230 per share, and 19x estimated 2023 earnings of $248. Currently, with the S&P 500 at $3,600 trades at 16x estimated 2022 earnings, and 15x estimated 2023 earnings.

We believe that the broad price decline and subsequent re-valuation of U.S. equities both reduces intermediate term risk and increases longer term implied forward returns.

While 2022 has had plenty of headline risk, we believe the single most important factor during the year has been interest rates. The 10-year Treasury has increased from 0.50% in the summer of 2020 (its all-time low level) and 1.51% at year-end

2021 to 3.95% at present. While the nominal level of interest rates is “normal” within the context of the past 40 years, the sharp rise in rates in 2022 has resulted in a significant contraction in equity valuations, as the net present value of the future cash flows of businesses declines materially as interest rates go from 1% to 4% (and perhaps, higher).

Equities are long duration assets: much of their intrinsic value is comprised of the value of their future cash flows, discounted to the present. As interest rates rise, future cash flows are discounted at a higher interest rate, which means that the value of all of the future cash flows declines (the opposite is true: as interest rates decline, the value of all future cash flows increases).

Equity valuations expanded in the 2018-2020 period as interest rates completed a nearly four decades decline from low double digits in the early 1980’s, declining from 3.2% in October of 2018 to a historic low of 0.50% in June of 2020. As interest rates have retraced higher since the summer of 2020, equity valuations have contracted accordingly.

While it is impossible to predict where stock prices will bottom, and when they will begin to recover, the level and direction of interest rates will be key factors in that recovery process, as interest rates have such a large impact on equity valuations.

We believe the Fund’s equities are attractively valued, especially after the sharp contraction in their valuations during 2022. Importantly, we believe the franchise characteristics of our companies are largely intact, and the opportunities for business value growth are attractive. What has changed during 2022 is the perception around valuation (largely driven by the sharp rise in interest rates); there has generally been no material degradation of the quality of our businesses (balance sheets remain strong), the durability of the competitive advantage our businesses enjoy (our businesses enjoy comparative competitive strength), and their long-term business growth prospects.

We expect the investing environment to remain very challenging in the short to intermediate term, but we will continue to remain focused on owning great businesses that are attractively priced relative to their long-term opportunities and our assessment of their fair value given their quality and competitive advantage.

We appreciate your patience and support.

Ted Bridges

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.

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.

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