BRIDGES | INVESTMENT FUND, INC.

January 9, 2023

**Performance**

Bridges Investment Fund had a total return of -28.75% for the one-year period ending December 31, 2022. By comparison, the S&P 500 had a total return of -18.11%. The Fund had annualized total returns of 4.30%, 7.61%, and 10.65% for the 3, 5, and 10-year periods ending December 31, 2022, compared to total returns of 7.66%, 9.42%, and 12.56% for the S&P 500. Three, five, and ten-year periods are annualized. The Fund's gross expense ratio is 0.72%, as stated in the Prospectus.

*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. 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 2022 and Outlook for 2023**

U.S stocks declined sharply in 2022 as interest rates rose during the year. The S&P 500 had a total return of -18.11%, the Russell 2000 had a total return of -20.46%, and the Nasdaq 100 had a total return of -32.38%.

The 10-year Treasury finished 2021 at 1.50%, and ended 2022 at 3.87%, as the Federal Reserve increased interest rates several times during the year in order to combat sharply higher inflation caused by the monetary and fiscal responses in 2020 and 2021 to the global pandemic.

Materially higher interest rates contracted equity valuations significantly during 2022; in our view, the sharp increase in interest rates during 2022 was the primary reason that stock prices experienced such broad, deep price declines during the year.

Equities are long duration assets – much of their value is embedded in their future cash flows. As such, equity valuations are very sensitive to changes in interest rates.

Equity valuations expanded gradually between 2011 and 2021, as the Fed's quantitative easing pushed interest rates lower over the decade, culminating with the 10-year Treasury bottoming in the summer of 2021 at 0.50%, down from 3.30% at year-end 2010.

The P/E on the S&P 500 was 13.6x trailing twelve-month earnings at year-end 2011; it was 24.7x trailing earnings at year end 2021. The decline in stock prices during 2022 left the S&P 500 trailing P/E at 18.5x at year end 2022, a contraction in valuation of about 25%.

While 2022 saw many other macro risks impact capital markets, the most important factor causing the negative returns experienced by stocks in 2022 was the impact of rising interest rates on equity valuations.

Investor concerns around inflation and the well-above trend pace of the economy peaked in mid-June of 2022, at which point the S&P 500 had declined 25% from year-end 2021.

In the second half of 2022, the market narrative transitioned from “the economy is running too hot” to “the Fed is destroying demand in order to curb inflation, and that could lead to a recession in 2023.” As recession concerns mounted in the second half of the year, the S&P 500 again reached -25% territory at the end of the third quarter, before recovering in the fourth quarter to finish the year down 18%. The risk of a major deceleration in corporate earnings replaced “persistently hot inflation” as the primary risk entering 2023.

While it is impossible to predict whether there will be a recession in 2023 or 2024, it does appear that the Fed’s tightening of interest rates is having the desired impact; inflation data is flattening out, and our concern in 2023 will be more around the pace and trajectory of corporate earnings growth, and less about inflation.

As such, we will continue to focus on owning high quality businesses in the Fund, ideally companies that are able to generate satisfactory business value growth over the long run, regardless of shorter-term economic conditions.

The decline in equity prices and valuations was substantial in 2022, but we believe that broad and deep stock price declines set the stage for better returns for equity investors over the next five to ten years.

At present, the S&P 500 trades at 3,895, down from 4,766 at year-end 2021. Consensus earnings estimates for the S&P 500 are for earnings of $225 per share in 2023, and $245 in 2024. We believe it is likely that earnings estimates for the S&P 500 will decline over the course of 2023, as continued Fed interest rate tightening and the higher interest rate environment combine to reduce aggregate economic demand, which slows the economy, placing pressure on corporate profits.

If earnings estimates for 2023 and 2024 decline 5% and 10% from current levels, the S&P 500 trades at 18.5X 2022 estimated earnings and 17.6x estimated 2023 earnings, valuations that we believe are close to “fair value,” assuming the ten-year Treasury yield is in a range of 3.0-4.5%.

If our estimate of “fair value” is in the ballpark, we would expect forward returns for the S&P 500 would be in the high single digits over the next five to ten years, which we believe is attractive relative to interest rates of 3.0-4.5%.

We expect 2023 will be characterized by continued elevated levels of stock price volatility, as investors grapple with higher inflation and the risks surrounding Fed tightening and a slowing economy. We would use periods of sharp downside stock price volatility as opportunities to add to or initiate positions in businesses that we believe offer attractive long-term total return potential.

History does provide support for the notion that stock prices will eventually recover, notwithstanding the current risks and challenges that equity investors face.
Since 1950, there have been seven occasions where the S&P 500 declined at least 25% in a calendar year, where subsequent five-year total return data is available (the S&P 500

declined more than 25% in 2020 and 2022, but five years have not yet passed). The average total return five years out from the date of the 25% decline was 111%.

**Our Portfolio**

The Fund's portfolio continues to be comprised primarily of companies with strong balance sheets, high levels of profitability, and a demonstrated ability to grow business value over the long-term despite periodically challenging economic conditions.

The Fund's ten largest individual stock holdings as of December 31, 2022, were:

| | |
|---|---|
| Apple | 10.4 |
| Alphabet | 8.1 |
| MasterCard | 8.1 |
| Microsoft | 7.1 |
| Amazon | 4.8 |
| Visa | 4.0 |
| United Health | 3.9 |
| Old Dominion | 3.5 |
| Berkshire Hathaway | 3.3 |
| Thermo Fisher Scientific | 2.5 |

The following table summarizes the changes we made in the Fund in 2022:

**New Buys:**
Aptar Group
BWX Technologies
EOG Resources
Intuitive Surgical
ServiceNow, Inc.

**Adds**:
Cable One
Chemed Corporation
Edwards Lifesciences
Sherwin-Williams Company
TransUnion
Ulta Beauty

**Trims:**
Adobe
Alphabet
Apple
Berkshire Hathaway
Home Depot
IAA, Inc.

Intercontinental Exchange, Inc.
MasterCard
Meta Platforms
NVIDIA
Old Dominion Freight Line
Palo Alto Networks
S&P Global
SVB Financial Group
Union Pacific
Visa

**Sells:**
Autodesk, Inc.
Salesforce, Inc.
Starbucks Corporation
Terminix Global Holdings, Inc.
Wells Fargo

The companies that were the most additive to the Fund's return in 2022 included United Health, Old Dominion, Texas Pacific Land, Berkshire Hathaway, and Blackrock.

The companies that were the largest drag on the Fund's return in 2022 included Amazon, SVB Financial, PayPal, Meta Platforms, and Apple.

We believe the Fund's holdings are both 1) well-positioned to grow their business value over the next several years, and 2) valued at levels that are reasonably attractive over the long run given our assessment of their quality, the durability of their competitive advantage, and their long-term business value growth potential.

From a valuation standpoint, we believe the Fund's holdings are attractively valued looking out over the next several years. At present, the Fund's portfolio trades at 21.0x estimated 2023 earnings and 19.7x estimated 2024 earnings, with a projected long-term annual earnings growth of 12-14%, which compares with the 17.4x 2023 P/E, 15,8x 2024 P/E, and 8-9% long term annual earnings growth projected for the S&P 500.

**Investment Philosophy and Process**

We continue to rely on our investment philosophy and investment process to provide a framework for our portfolio management of the Fund. Strong investment process is critical always, but especially within the context of challenging and volatile capital markets conditions.

Our investment philosophy is based on the notion that long-term investment in high quality, structurally advantaged businesses that are well-managed and that have opportunities for significant business value growth can provide shareholders with satisfactory long-term returns. We expect that over time, business value growth and share price performance should approximate each other: we seek to derive our investment return over the long run from being business owners, not from the fact that the businesses that we own are traded in the public equity market. We are "business dependent" for return, not "stock market dependent." (We are aware that the businesses that we own "live" in the stock market, where stock price volatility can be far greater than "business value volatility," which was very evident in 2022).

We seek to effectuate our investment philosophy through our investment process, which entails three core elements: **quality** (the higher the better), **growth** (the faster and more consistent, the better), and **valuation** (the lower the better, given the first two considerations).

We seek to own high quality businesses that have durable structural or competitive advantage, because we believe that high quality businesses with competitive advantage can deliver attractive returns over time, given a demonstrated ability to successfully exploit their competitive advantage. The returns those businesses generate result from a compounding of the returns that are generated on the capital our companies deploy over time.

We seek businesses that have significant long-term opportunities to grow, and a demonstrated ability to effectively convert growth opportunities into rising free cash flows over time.

Finally, we apply rigorous approaches to valuation in order to identify companies that are priced attractively from a long-term perspective given the quality and durability of their franchise and the size of their business growth opportunities.

Our primary investment goal is to identify and own companies that have strong franchise characteristics and attractive valuation metrics, such that the business value growth that our companies generate over the long-term leads to positive shareholder returns.

A lengthy time horizon is critical to our approach, because it allows sufficient opportunity for our companies to compound business value at attractive rates, such that over time, share price can appropriately reflect growth in underlying business value.

Over time, we expect to benefit from our investment approach in two ways: 1) from an improvement in valuation, as our companies move from being undervalued relative to our appraisal of fair value toward our estimate of fair value (positive change in valuation), and 2) from the growth in our companies' underlying business value over time, which is driven by increasing revenues, earnings, dividends, and free cash flow.

We believe that our investment approach should be effective over the long run, as stock prices tend to track underlying changes in business value over time. Periods of broad stock market weakness, such as 2022, create opportunities for us to identify attractive new equity investment candidates, and/or to add to existing holdings at attractive valuation levels in view of a multi-year or even a multi-decade investment horizon.

In 2022, many of the businesses that generated strong business value growth over the 2011-2021 time frame, and saw their valuations expand in view of their underlying financial performance during that period, materially underperformed the broader market.  Primary examples in the Fund include Alphabet and Amazon.

Those companies were instrumental in driving material outperformance for the Fund from 2014-2021.  In 2022, those same businesses were the source of much of the Fund's underperformance, as their valuations contracted significantly as interest rates rose over the course of the year.

High quality businesses that grow at above average rates over time tend to have much of their value embedded in the out years – they are very long duration assets, and thus highly sensitive to changes in interest rates, which impacts the net present value of their future cash flows as interest rates fluctuate.

In our view, stock prices of long-duration businesses often fluctuate far more widely in the short run than changes in underlying long-term intrinsic value (which is driven by underlying growth in revenues, earnings, dividends, and free cash flow).  Stock price outperformance that takes years to generate can evaporate in short periods of time when interest rates increase sharply, as was the case for many of the Fund's larger holdings in 2022.

Our investment horizon remains decidedly long-term.  We believe that a long-term investment horizon confers investors with significant competitive advantage. Essentially, we seek to invest capital based on our appraisal of where a company's value might grow to, using reasonable assumptions, over the course of a decade.

Inherent in that appraisal are two key assumptions:  1) that company valuations eventually mean-revert over the very long-term, i.e., move from overvaluation or undervaluation toward a valuation level that is "fair" given a company's quality, competitive advantage, fundamentals, and management, and 2) the market eventually "gets it right" and values companies reasonably close to "fair value."

If we are correct that those two assumptions hold over time, we would expect that the negative price action of 2022 will eventually give way to better stock price performance for our companies over the fullness of time, as their valuations recover and normalize, and as their business value continues to grow on balance.

We are very grateful for your patience and support and your continued investment in Bridges Investment Fund.

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

Must be preceded or accompanied by a Prospectus.

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

Fund holdings and sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security. Current and future portfolio holdings are subject to risk.

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.

Yield spread is the difference between **yields** on differing debt instruments of varying maturities, credit ratings, issuer, or risk level, calculated by deducting the **yield** of one instrument from the other. This difference is most often expressed in basis points (bps) or percentage points.

Basis points refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

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.

The Price-to-Earnings Ratio or P/E ratio is a ratio for valuing a company that measures its current share price relative to its per-share earnings.

***Earnings growth for a Fund holding does not guarantee a corresponding increase in market value of the holding or the Fund.***

**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.**

While the fund is no-load, management fees and other expenses still apply.

The Bridges Investment Fund is distributed by Quasar Distributors,