BRIDGES | INVESTMENT MANAGEMENT

July 10, 2023

Bridges Investment Fund had a total return of 14.13% in the second quarter of 2023, vs. 8.74% for the S&P 500 over the same period. Year to date, the Fund had a total return of 27.27%, versus 16.89% for the S&P 500, and for the twelve-month period ended June 30, 2023, the Fund had a total return of 22.94% versus a 19.59% total return for the S&P 500. For the three-year period ended June 30, 2023, the Fund had an average annual total return of 12.07% versus 14.60% for the S&P 500. For the five-year period ended June 30, 2023, the Fund had an average annual total return of 11.75% versus 12.31% for the S&P 500. For the ten-year period ended June 30, 2023, the Fund had an average annual total return of 12.15% versus 12.86% for the S&P 500. The Fund's expense ratio is 0.75%.

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 advanced during the second quarter of 2023, as investors began to anticipate an eventual end of the Fed's ongoing interest rate increases. As interest rates moderated during the quarter, stock prices advanced, with the S&P 500 posting an 8.74% total return, after a 7.48% total return in the first quarter.

The strong start to 2023 for equities has pushed valuations higher, increasing near term risk. The S&P 500 P/E on estimated 2024 earnings was 15.6x at the beginning of the year; the P/E on estimated 2024 earnings was 18.1x at the end of the second quarter.

At current valuations, equities trade reasonably close to our assessment of long-term fair value.

The two most salient risks in the intermediate outlook in our view are:

1. Slowing / weaker corporate earnings as the interest rate increases engineered by the Fed over the past 18 months cool aggregate economic demand, and

2. Persistently stubborn inflation, emanating from tight labor markets.

We expect heightened equity market volatility in the second half of the year.

We continue to view short term stock price volatility as opportunity to add to, or initiate positions in businesses that have durable competitive advantage and attractive potential to grow shareholder value over the long run.

We believe that it is impossible to predict short-term stock price movements.

Consequently, our focus is on identifying and owning high quality businesses that can compound returns on capital and equity over a period of many years.

The Fund's companies have generally executed well in recent years, during what has been an exceptionally difficult operating environment. Over time, our expectation is that the equity market does a reasonably good job of evaluating corporate financial performance and growth in intrinsic value, which is eventually reflected in stock prices.

After a difficult 2022, many of our companies have experienced a strong recovery in their stock prices during the first half of 2023, taking their valuations closer to our estimate of their long-term fair value. Our definition of "long-term fair value" is the price or valuation at which future gains in share price should be close to future growth in revenues, net income, dividends, and/or free cash flow.

As we noted in the second quarter letter to shareholders last year, valuations are an important component of the return investors earn over time, but ultimately, corporate financial performance matters the most to long-term 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). For a long-term investor in a business, most of the return on the capital invested is driven by the growth in the business' cash flows, as opposed to be driven by changes in the market's valuation of the business.

Consequently, we think it is more important to get the analysis of the business (the durability of its competitive advantage, and the opportunity that it has to grow its value) right over a long investment horizon, than it is to seek to be overly precise around the price or valuation of a business in the short run.

For the owners of exceptional businesses, time is an ally; the longer the holding period, more time the investor has for their investment to compound at attractive rates.

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 and ultimately drives shareholder returns.

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 2023, we have a high degree of confidence in the ability of our companies to continue 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 challenging market conditions; we continue to be constructive about the long-term prospects for the Fund’s holdings.

Edson L. Bridges III
Chief Executive Officer and
Chairman of the Board

Must be preceded or accompanied by a Prospectus.

The 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.

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.