January 15, 2024

Performance

Bridges Investment Fund had a total return of 38.91% for the one-year period ending December 31, 2023. By comparison, the S&P 500 had a total return of 26.29 during 2023. The Fund had annualized total returns of 7.62%, 15.80%, and 11.13% for the 3, 5, and 10-year periods ending December 31, 2023, compared to total returns of 10.00%, 15.69%, and 12.03% for the S&P 500. Three, five, and ten-year periods are annualized. The Fund's gross 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 an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The 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 2023 and Outlook for 2024

For most investors, 2023 was the mirror image of 2022.

U.S stocks declined sharply in 2022 as interest rates rose sharply 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%, making 2022 one of the worst years for investors in several decades.

The rapid and large increase in interest rates in 2022 had the effect of significantly contracting the valuations of long-duration assets; the S&P 500 P/E on twelve-month trailing earnings declined from 24.7x at year-end 2021 to 18.7x at year-end 2022.

In 2023, there was continued interest rate volatility throughout the year. The benchmark 10-year Treasury ended 2022 at 3.87%, fell to 3.37% on January 18 (a 50 basis point decline in less than three weeks!), rallied to 4.06% on March 2, and then fell back to 3.31% on April 2 (a 75 basis point drop in four weeks!!).

From April 2, the 10-year yield rallied to 4.99% on October 19 – the first time the 10-year had traded at that level since July 2, 2007.

Investors rushed to capture the highest yields in years, which sparked a bond market rally through year-end, with the 10-year yield closing 2023 at 3.88%, one basis point higher than where it started the year.

But, unlike 2022, when sharply higher interest rates contracted equity valuations, 2023 saw investors accept higher interest rates with much more equanimity.

Between March 31 and October 19, the 10-year yield increased by 168 basis points, which typically would present a significant headwind for stocks. However, the S&P 500 returned 5% over that stretch, and then added another 11.86% over the rest of the year, to finish 2023 with a 26.26% total return.

We believe that the marked change in investor behavior in 2023 was primarily due to two factors: 1) while interest rates were peaking in October, the trend in inflation data over the course of the year had begun to slow meaningfully, which prompted equity investors to begin to anticipate eventual interest rate cuts by the Fed (consensus expectations centered on Fed transitioning to a less hawkish stance by mid-2024), and 2) corporate earnings held in well during 2023, confounding many who expected the onset of a recession at some point during the year. A recession never materialized, and corporate earnings performance was strong enough to support higher stock prices and valuations across the year.

Entering 2024, we expect that those two factors - interest rates, and corporate earnings – will likely have a significant impact on the path of stock prices over the next twelve months, and beyond.

Fortunately, our success as investors is not dependent on our ability to predict events over a one-year period.

Rather, our success is determined by our ability to invest capital in businesses that have demonstrated an ability to grow their intrinsic value for shareholders over the long run, and which, based on our analysis, appear likely to be able to continue to generate financial performance in the future that is consistent with the strength and durability of their competitive advantage.

While we seek to be aware of the opportunity set in front of us in capital markets, our primary focus is on assessing the quality, growth prospects, and valuations of exceptional businesses that have durable competitive advantage, and the fundamental attributes of those businesses that will impact their ability to grow their value over a long investment horizon.

We expect significant capital markets volatility again in 2024, but we will seek to use elevated levels of volatility to opportunistically improve the quality of the portfolio's holdings and increase the portfolio's aggregate implied forward return.

Consistent with the last five years, we expect that 2024 will be challenging, volatile, and full of surprises. Our job is to continue to allocate the Fund's capital well within the context of a long time horizon, by investing in businesses that can compound shareholder value at attractive rates over the long-term.

In last year's annual shareholder letter, we noted that while 2022 was a difficult year (S&P 500 down 18%, the Fund down 29%), history shows that stocks typically recover well in the five years subsequent to large equity market drawdowns, averaging 111% total returns over the five years off bear market lows.

From 2022's low on October 12 through year-end 2023, the S&P 500 had a total return of 36.05%, and the Fund had a total return of 43.85%. The recovery that we believed would eventually occur is well underway, and while our near-term expectations are muted given the sharp advance in stock prices and valuations in 2023, we remain constructive on the long-term outlook for U.S. public equities in general, and the Fund's holdings specifically.

Our Portfolio

The Fund’s investment philosophy is based on our belief that companies that have durable competitive advantage and significant opportunities to grow over long periods of time can compound returns that they earn on their equity capital to drive growth in shareholder value at attractive rates.

As such, our investment process focuses on identifying business that clearly demonstrate the elements that we believe are most important in our investment philosophy:

1. High quality business – as evidenced by a strong balance sheet, and a demonstrated ability to generate free cash flow
2. Durable competitive advantage – as evidenced by the ability to earn high returns on equity capital over many years.
3. Shareholder friendly management that uses adroit capital allocation skills to grow a business’ intrinsic value.
4. Opportunities to leverage competitive advantage by competing in markets that appear to have long runways for growth, and/or the opportunity to meaningfully increase share in slower-growing markets.
5. Are available at valuations that are sensible given the elements outlined above, and that trade near, or well below, our estimate of “fair value” over a long investment horizon.

Consistent with our investment philosophy and our investment process, the Fund’s portfolio is comprised primarily of companies with strong balance sheets, high levels of profitability, and a demonstrated ability to grow free cash flow and business value over the long-term despite periodically challenging economic conditions.

The Fund’s ten largest individual stock holdings as of December 31, 2023, were:

Alphabet	10.8
Microsoft	9.4
Apple	8.3
Amazon	7.3
Nvidia	4.6
Mastercard	4.5
Visa	4.0
Old Dominion	3.9
Palo Alto Networks	3.8
United Health Group	3.3

The following table summarizes the changes we made in the Fund in 2023:

New Buys:

Copart
Generac
Lithia Motors
Pool Corporation
Zoetis

Adds:
Alcon
Casey’s General Stores
EOG Resources
Intuitive Surgical
ServiceNow

Trims:
Adobe
Alphabet
American Tower
Apple
Berkshire Hathaway
Blackrock
Home Depot
JPMorgan Chase
Lowes
Mastercard
Meta Platforms
Nvidia
Old Dominion Freight Line
Palo Alto Networks
S&P Global, Inc.
Thermo Fisher Scientific
Union Pacific
Visa

Sells:
Cable One
Edwards Lifesciences
IAA, Inc.
IQVIA
Sherwin Williams
SVB Financial Group
Texas Pacific Land Corporation
TransUnion

The companies that were the most additive to the Fund’s return in 2023 included Nvidia, Apple, Microsoft, Amazon, and Meta.

The companies that were the largest drag on the Fund's return in 2023 included SVB Financial Group, Texas Pacific Land Corporation, PayPal, Cable One, and Thermo Fisher Scientific.

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 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 24.1x estimated 2024 earnings and 23.3x estimated 2025 earnings, with a projected long-term annual earnings growth of 16-18%, which compares with the 20.0x 2024 P/E, 17.7x 2025 P/E, and 7-9% long term annual earnings growth projected for the S&P 500.

Charlie Munger

Charlie Munger, Warren Buffett's long time investing partner at Berkshire Hathaway, passed away in November at the age of 99. He would have been 100 on January 1 of this year.

Charlie is credited with encouraging Warren Buffett to evolve his investment approach from seeking to invest in an "ok business at a great price" to a investing in a "great business at a sensible price." We believe that Buffett's transition to this approach was responsible for much of the success of Berkshire's public equity portfolio since the late 1980's.

Buffett's purchase of Coca Cola in 1988 marked the beginning of his emphasis on owning exceptional businesses able to compound their intrinsic value at high rates for decades; Berkshire's investment in Apple has arguably been its most impactful public equity investment, and in our view is the best example of Buffett's "great business at a sensible price" perspective. The value of Berkshire's Apple holding is now more than 20% of Berkshire's market capitalization.

We share Munger's insistence on owning high quality businesses that have durable competitive advantage and take to heart his advice to think about one's investments like a business owner who seeks to compound the return on their invested capital for a very long time.

Munger's insights on investing will be missed, but his mark on the art and science of investing is likely to prove to be indelible.

Gratitude

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

Ted Bridges

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.

Holdings are subject to change and are not a recommendation to buy or sell any security.

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.