BRIDGES
INVESTMENT MANAGEMENT, INC.

Market Comments

July 8, 2008

1. The first half of 2008 was characterized by significant capital markets volatility, in a continuation of the difficult environment that existed in the second half of 2007. Turmoil stemmed largely from ongoing repercussions from the subprime mortgage / housing market debacle, as financial services companies were forced to write down large amounts of capital due to bad loans, and as ongoing housing market weakness permeated the broader economy. Relentless increases in the price of oil and a persistently weak dollar negatively impacted the U.S. economy as consumers reigned in spending. Investors continued to sell relatively risky assets and buy relatively safe assets, a complete reversal from mid-summer of 2007. Uncertainty regarding the outcome of the 2008 elections also seemed to weigh on securities prices. The result was very modest returns for bonds (mostly due to positive returns in Treasury and Agency issues) and double digit declines for equities.

2. We expect continued capital markets volatility in the second half of 2008, as investors grapple with the litany of risks and problems outlined above. While it is likely the U.S. economy is in a recession, or at least close to it, and while the stock market decline from October 2007 through June 2008 technically qualifies as a "bear market" (20% decline in stock prices from an interim peak), the key issue for investors going forward is assessing the likely longer term returns from asset classes from current levels, and gauging the likely interim volatility or returns over the next several years – in a sense, balance the need for short term stability with longer term valuation and return opportunities.

3. We anticipate that the intermediate term outlook for interest rates will be defined by a range on the 10 year U.S. Treasury note of 3.00% to 5.50% in 2008-2010, with rates likely to settle in a range defined by 3.50% to 4.50% over the remainder of 2008, and moving toward the higher end of our broader range late in 2008 and into 2009 once economic growth begins to improve and reaccelerate. Rates during the first half of the year bottomed on March 17 at 3.31% and closed the quarter (June 30) at 3.97%, essentially unchanged from the 4.02% level at year end 2007. Credit spreads remain very wide by historical levels; in our view investment grade corporates are far more attractive than Treasuries. We remain defensively postured in the bond portfolio in terms of our duration and average life given low nominal rates, low real rates, and a material risk of rising inflationary pressure in the short run; we will look for opportunities to extend maturities if/when rates move toward the higher end of our anticipated range and as bond valuations improve.

4. Our portfolio's equities remain extremely inexpensive relative to their recent financial performance and our expectations of their future growth. At present, the portfolio trades at 14.8x estimated 2008 earnings with a consensus long term earnings growth rate of 14%. By comparison, the S&P 500 trades at 13.3x estimated 2008 earnings with a projected growth rate of 7-8% over the next 3 to 5 years. We continue to expect that companies with higher quality balance sheets and more consistent earnings growth profiles will experience an improvement in both absolute and relative valuation over the next several years as GDP growth moderates and investors focus on companies with more consistent financial performance attributes versus those companies with more

cyclical exposure. This process began in the second half of 2007, as for the first time since 2000, larger, more consistent growth companies showed sustained outperformance relative to smaller and more GDP-sensitive companies, and this outperformance continued in the first half of 2008. We expect that over the next several years, companies with stronger balance sheets and more consistent earnings growth attributes will show better relative performance in the challenging economic and market environment that we foresee. Our equity investment process remains focused on identifying those companies that are best-positioned to grow shareholder value over the long run, and on owning those companies with the best combination of strong financial performance and attractive valuation metrics. We believe a bottom-up, company-specific equity investment approach is important in an environment characterized by significant short term economic uncertainty. We believe that toward the end of stock market declines, most, if not all companies, reach significant levels of intermediate, if not long term, undervaluation, and investors have the opportunity to acquire or add to companies with the best franchises at relatively attractive prices. We tend not to sell equities in order to sidestep anticipated short term market declines, because we do not believe that we (or anyone) can consistently predict short term market moves. In the current environment, our companies sell at what we believe are very attractive long term valuation levels, and we expect that returns over the next five years will be good on an absolute basis as history strongly shows that valuations tend to return to mean or average levels over time.

5. Valuations across sectors vary widely. We are overweighted in energy, which has been the best performing area; valuations still seem reasonable but given the sharp run in the stocks we will likely take some gains in the second half. Financial services are under severe duress, and valuations relative to some notion of “normalized” earnings are very inexpensive, but momentum is very negative. We expect this sector will be the best performing area in the market over the next 3-5 years, followed closely by consumer discretion. We are underweighted in the consumer staples because valuations relative to long term growth are not as attractive as other areas.

6. We continue to favor equities over bonds over the next several years based on our valuation work. We expect fixed income investors will be fortunate to earn their coupon given 1) the current low level of both nominal and real rates, 2) the risk of rising inflation due to significant commodity price increases, and 3) the risk that credit spreads will continue to widen as GDP growth slows in 2008. Valuations remain reasonable for equities given our expectation of 7-8% earnings growth on balance over the next 3 to 5 years, and a reasonably benign interest rate environment. We expect bond returns in the 3-5% range and equity returns in the 7-10% range annually over the next 3-5 years, and our current asset allocation, tilted strongly toward equities, reflects that valuation assessment.