Bridges Investment Management

Market Comments

October 27, 2009

Dear Shareholder,

Strong returns for equities in the third quarter have reduced the level of undervaluation for stocks that existed in the first part of 2009. The S&P 500 is approximately 60% higher from the March 9, 2009 low, but it remains more than 30% below the all time high levels reached first in March of 2000 and again in October, 2007, and we believe equities remain undervalued on a long term basis.

We remain constructive on the stock market for the following reasons. First, stocks are undervalued relative to normalized valuations assuming a reasonable economic recovery on balance over the next several years. Corporate earnings for both the second and third quarters have come in well above expectations, which leads us to believe economic conditions are in the process of bottoming. Given aggressive cost-cutting over the past year, many companies are in position to possibly see very strong earnings growth over the next several years as economic stabilization gives way to actual economic growth.

Second, equity returns over the past decade are far below historic norms, despite reasonably solid corporate profit growth during that period. Notions of reversion to the mean for both equity returns and equity valuation levels argue that investors will achieve better returns from stocks over the next decade than they did during the past decade, and this idea is supported by current fundamentals (low valuations, the likelihood of higher corporate profits over time from the current recessionary levels, and low interest rates).

Third, investor sentiment, while improved from the extremely pessimistic levels of early 2009, remains cautious (in part due to the material risks that investors face at present). Sentiment is far more circumspect than that typically associated with important market tops.

Fourth, there is ample liquidity to support ongoing equity purchases, both by individuals, and by corporations. Many companies have ample balance sheet liquidity which could support material share repurchase programs while valuations are low. With money market yields at extremely low levels, there is little competition for equities, especially as better stock market performance draws individual investors back to the market. The ratio of aggregate U.S. equity market capitalization versus money market fund assets remains favorable (low market capitalization relative to high amounts of money market assets).

Significant risks remain for investors: 1) still rising unemployment, 2) depressed consumer spending (as consumers scramble to de-leverage), 3) uncertainty regarding the new Administration's initiatives in health care reform, economic and tax policy, and regulation, and 4) the potential for inflation and a persistently weaker dollar in the wake of the massive economic stimulus brought to bear over the past year. While these risks are real, we believe they are materially discounted in equity valuations at present.

We expect that equities will move higher on balance over the next several years as the economy stabilizes and then recovers, but recovery in both the economy and the capital markets is likely to be choppy. We believe that the S&P 500 could finish 2009 at or above 1,150, and we believe

that the S&P 500's fair value for 2010 could approximate 1,250-1,300, given our expectation of improved earnings ($70-75 per share next year) and a reasonable interest rate environment (10 year Treasury yield in the range of 4.0-4.5%).

We continue to focus on companies with strong balance sheets, leading business franchises, high levels of free cash flow, good prospects for business value growth over time, and attractive valuation metrics. We believe companies with these characteristics will provide solid returns to investors on balance over the next several years as earnings and free cash flows recover and grow and as equity valuations improve toward more normal levels.

Opinions expressed are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Past performance does not guarantee future results.

Mutual fund investing involves risk. Principal loss is possible.

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 a specific index.

Free cash flow is revenue less operating expenses including interest expense and maintenance capital spending. It is the discretionary cash that a company has after all expenses and is available for purposes such as dividend payments, investing back into the business or share repurchases.

Must be preceded or accompanied by a current prospectus.

The Bridges Investment Fund is distributed by Quasar Distributors, LLC (11/09)

Sincerely,

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