Riverbridge

SMALL CAP GROWTH

Commentary — June 30, 2023

PERFORMANCE (AS OF 06/30/2023)

	2Q 2023	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Riverbridge Small Cap Growth (Gross)	**6.57%**	**16.79%**	**18.40%**	**4.51%**	**8.78%**	**11.64%**	**12.70%**
Riverbridge Small Cap Growth (Net)	**6.35%**	**16.34%**	**17.47%**	**3.72%**	**7.94%**	**10.81%**	**11.73%**
Russell 2000® Growth	7.05%	13.55%	18.53%	6.10%	4.22%	8.83%	7.85%

Periods greater than one year are annualized. Inception Date: 06/30/1988.

HIGHLIGHTS

- Equity market overcame multiple challenges to post solid gains, with the Russell 2000® Growth index advancing 7 percent
- Strategy slightly underperformed its benchmark during the quarter but remains ahead of the index year-to-date
- The Riverbridge investment team continues to position the portfolio behind companies we believe are poised to respond and adapt to opportunities like AI and challenges like restrictive monetary policy

MARKET COMMENTARY

The first half of 2023 demonstrated the impact of low expectations. Heading into this year, following a universally disappointing 2022, investors feared and even expected stubbornly high inflation, higher interest rates, and eventually an economic recession. Market strategists were generally bearish, with even the most optimistic scenarios calling for mid-single digit returns for the year. Institutional and retail investors built their cash positions to defend against this pessimistic outlook and to take advantage of the most compelling interest rates seen in decades.

Against this dour backdrop, the equity markets generated some of their best first half returns in decades. The Nasdaq® index had its best start since 1983. Apple officially became the first $3 trillion company. Even the beaten-up cryptocurrency markets rebounded, with Bitcoin surging more than 80 percent.

To post these results, the market still had to sidestep several trip wires. As feared entering the year, inflation remained stubbornly high due to a resilient labor market, leading the Fed to "pause" rather than terminate their series of rate increases at their June meeting. Unexpected macro events such as the regional banking crisis and the political theater surrounding the debt ceiling negotiations led investors to the perceived safety of a handful of very large technology companies, now dubbed the "Magnificent Seven" (Apple, Microsoft, Amazon, Google, Nvidia, Tesla, and Meta).

Outweighing these challenges, in the second quarter earnings reports for 1Q 2023 were generally better than expected, and continued strength in many economic indicators led to renewed hope that the Fed will be able to orchestrate an elusive soft landing. In addition, dramatic developments in the utility of Artificial Intelligence (AI) prompted extensive discussion in the financial and popular press and fueled investor optimism.

In April and May, large and mega-cap stocks significantly outperformed small and mid-caps, before the trend reversed in June. For the full quarter, in the Russell 2000 Growth® Index, nine of the eleven sectors generated positive returns, led by Health Care, Industrials, Consumer Staples, and Information Technology. Utilities was the only sector to decline, while the Materials sector was flat.

NEW BUYS

ACV Auctions, Inc.

FULL SALES

Heska Corporation

National Instruments Corporation

PRA Group, Inc.

CONTRIBUTORS

SPS Commerce, Inc.

Medpace Holdings, Inc.

Kornit Digital Ltd.

DoubleVerify Holdings, Inc.

Kinsale Capital Group, Inc.

DETRACTORS

Five Below, Inc.

Grand Canyon Education, Inc.

Certara, Inc.

PRA Group, Inc.

BlackLine, Inc.

Continued on next page…

PERFORMANCE COMMENTARY

In the second quarter, the Riverbridge Small Cap Growth strategy slightly underperformed its primary benchmark, the Russell 2000® Growth index. Year to date, the portfolio's returns remain comfortably ahead of those of the benchmark.

The various macroeconomic drivers described above impacted relative performance to some extent. For example, the portfolio sector with the worst relative performance was Industrials. The Industrials sector, despite its name, includes many companies outside of traditional, capital-intensive industries like manufacturing, construction, and airlines. The portfolio holds many such companies, including two Human Capital Management (HCM) service providers, Paylocity (PCTY) and Paycor (PYCR). While the labor market remains resilient, the pacing of new hires has softened, leading some to believe that employment figures could become less of a tailwind for the growth of HCM companies. While the Riverbridge investment team would not be surprised to see lower growth rates in the near-term, we continue to believe Paylocity and Paycor are well positioned to continue taking market share from legacy payroll providers and building out additional modules to offer to existing customers.

The portfolio's holdings in the Consumer Discretionary sector also detracted from relative performance. Five Below (FIVE), a value-oriented retailer offering on-trend merchandise to the teen and pre-teen age groups, pulled back slightly during the quarter despite healthy business momentum. The stock is caught up in investor concerns about the health of the US consumer and declined in sympathy with several discretionary retailers. From our perspective, however, Five Below remains strategically positioned and continues to execute at or above expectations relative to its growth trajectory. Currently, the company's strong balance sheet and unit economics are allowing management to opportunistically pursue leases in desirable locations where distressed retailers are vacating. As a result, the company expects to open more than 200 new stores this year, above previous projections, while continuing to convert existing stores to its more profitable Five Beyond concept. Grand Canyon Education (LOPE) also detracted from performance, despite reporting enrollment growth well above that of traditional universities.

Another sector which detracted from performance was Health Care. The portfolio's Health Care holdings exhibited solid absolute returns but failed to keep pace with the benchmark's Health Care constituents. The primary reason for the shortfall was our traditional avoidance of Biotechs, which tend not to meet our investment criteria of consistent, internally financed unit growth. The Biotechs in the benchmark rose more than 18 percent as investors concluded that funding levels do not seem to be permanently impaired following that collapse of Silicon Valley Bank in the first quarter.

Conversely, the strategy's Financials holdings contributed to relative performance for the quarter, partly because of what we don't own. Riverbridge attempts to avoid investing in companies in any sector which lack the ability to control their own destinies. The impact of changes in interest rates on the fortunes of many small to medium-size banks exemplifies this phenomenon. Banks in the benchmark declined materially in the quarter, and since we do not have any investments in banks, the portfolio benefited on a relative basis. Meanwhile, two companies we do own in the Financials sector which provide insurance services, Kinsale Capital (KNSL) and Goosehead Insurance (GSHD), appreciated materially in the quarter, contributing nicely to absolute and relative performance.

TRANSACTION COMMENTARY

We added one company to the portfolio during the quarter. ACV Auctions (ACVA) provides a marketplace and services to facilitate the trade-in and wholesale activities of auto dealers in a more digital way. By combining physical inspection and transportation services with digital technology, ACV is creating a better experience for both buyers and sellers. Buyers now have access to live inventory and can confidently bid on wholesale inventory without leaving their own dealerships. Sellers save costs and working capital by wholesaling vehicles directly from their dealerships- not having to wait until or ship to the next available auction.

We funded the purchase of ACV Auctions through the sales of Heska (HSKA), National Instruments (NATI), and PRA Group (PRAA). Heska and National Instruments both entered into definitive agreements to be acquired. In the case of PRA Group, which purchases and collects nonperforming loans, the US market has stagnated, and Europe has remained challenging with irrational pricing from some competing firms.

OUTLOOK

Investors have plenty of competing narratives to weigh for the rest of the year. Traders will attempt to read the tea leaves after every inflation reading and Fed meeting. Market bears point to narrow leadership as evidence that 2023's market recovery is fragile. Bulls counter that corporate earnings have been remarkably resilient, leaving companies outside the Magnificent Seven with plenty of room to run. The AI hype cycle is unlikely to abate, even as parsing the difference between a compelling narrative and compelling fundamental prospects will be difficult until we have the benefit of hindsight.

Riverbridge remains content to observe these macro debates from afar while continuing to position our portfolios behind companies we believe are poised to respond and adapt to opportunities like AI and challenges like restrictive monetary policy. Management teams that have cultivated strategic customer relationships and a business model that can sustain internally financed growth have a chance to build enduring earnings power no matter the economic environment.

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SMALL CAP GROWTH COMPOSITE

Year	Gross-of-Fee Return (%)	Net-of-Fee Return (%)	Russell 2000® Growth Return (%)	Portfolios	Dispersion (%)	Composite 3-Year Ex-Post Std. Dev.	Russell 2000® Growth 3-Year Ex-Post Std. Dev.	Composite Assets ($ Millions)	TTL Firm Assets ($ Millions)	Advisory Only ($Millions)	Ttl Firm Assets & Advisory Only ($Millions)
2022	-31.79	-32.34	-26.36	104	0.30	24.40	26.20	1,897.0	6,279.5	3,892.8	10,172.3
2021	4.58	3.82	2.83	105	0.30	21.25	23.07	2,456.5	9,408.0	6,149.6	15,557.6
2020	55.10	53.89	34.63	97	0.84	22.70	25.10	2,402.9	8,478.1	4,896.5	13,374.6
2019	28.32	27.32	28.48	97	0.27	15.31	16.37	1,396.4	5,378.3	2,633.2	8,011.5
2018	8.14	7.32	-9.31	104	0.47	15.47	16.46	1,372.9	4,737.1	1,842.0	6,579.1
2017	24.09	23.18	22.17	107	0.60	12.99	14.59	1,408.0	5,047.9	1,791.1	6,839.0
2016	14.23	13.37	11.32	111	0.75	15.29	16.67	1,566.9	4,686.7	1,546.6	6,233.3
2015	-2.56	-3.22	-1.38	133	0.43	14.19	14.95	1,633.3	5,030.8	1,202.4	6,233.2
2014	-0.34	-1.03	5.60	155	0.50	13.28	13.82	1,938.4	5,523.2	1,215.6	6,738.8
2013	43.47	42.57	43.30	163	0.87	13.76	17.27	2,257.3	5,718.3	1,085.7	6,804.0

Firm Information: Riverbridge Partners, LLC is a Minnesota based investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. The firm provides investment management services to institutional and individual investors. The company offers growth and income oriented investment services which it believes will provide high returns over the long term. The firm's standard fee schedule is an annual 1%.

Composite Characteristics: The Small Cap Growth Composite was created in July 1988 and its inception date was 06/30/1988. It is a growth stock portfolio invested in small to medium sized growth companies. Effective 09/29/2021, this strategy generally invests in companies with market capitalizations of less than $15 billion. The general market capitalization guideline can be redefined due to market appreciation or depreciation. A complete list and description of all firm composites, including broad and limited distribution pooled funds, is available upon request. The composite benchmark is the Russell 2000® Growth Index. The Russell 2000® Growth Index includes the segment of securities within the Russell 2000® Index with higher price-to-book ratios and higher forecasted growth values. The Russell 2000® Index is an unmanaged index measuring the performance of the small-cap U.S. equity universe. The benchmark returns are gross of all fees and taxes. The composite minimum value is $100,000.

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Calculation Methodology: Individual portfolios are revalued daily starting 1/1/2009. Prior to that, individual portfolios were revalued monthly and intra-month when large cash flows (defined at 10%) occurred. Gross-of-fee returns are calculated net of transaction costs and gross of management fees. Until 12/31/2007, net performance was calculated by applying the maximum annual management fee of 1% to gross performance on a monthly basis. Starting 1/1/2008, net-of-fee returns are calculated net of actual investment management fees. Both gross-of-fee and net-of-fee returns are calculated gross of all withholding taxes on foreign dividends. Accruals are included in calculations. The dispersion measure is the equal-weighted standard deviation of accounts in the composite for the entire year. Dispersion and Ex-Post standard deviation is calculated using gross-of-fees returns. Policies for valuing investments, calculating performance, and preparing GIPS® Reports are available upon request.

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