

**PERFORMANCE (AS OF 06/30/2024)**

	2Q 2024	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Smid Cap Growth (Gross)	-7.40%	-3.89%	-0.50%	-6.74%	5.75%	9.39%	10.55%
Smid Cap Growth (Net)	-7.59%	-4.26%	-1.24%	-7.44%	4.98%	8.56%	9.74%
Russell 2500™ Growth	-4.22%	3.93%	9.02%	-4.11%	7.58%	8.77%	9.03%

Periods greater than one year are annualized. Inception Date: 12/31/2006.

**HIGHLIGHTS**

- Russell 2500 Growth declined more than 4 percent as small and mid caps felt the brunt of shifting Fed expectations and a murky inflation picture
- Strategy underperformed and remained broadly out of favor; in the short-term, the AI hardware boom is leaving behind the software and services business models in which Riverbridge tends to invest
- The equity market likely needs to broaden beyond the largest six companies to advance further, presenting an opportunity for small and mid caps to assume a leadership role going forward

**MARKET COMMENTARY**

On the surface, the first six months of 2024 appeared to be a utopia for investors. The S&P 500 returned nearly 15% with very little volatility, despite the Federal Reserve not cutting interest rates and with inflation remaining stubbornly elevated. These impressive returns, however, masked some underlying warning signs. Despite the overall index posting strong returns, the majority of stocks in the S&P 500 declined in the second quarter. The market's gains were driven almost exclusively by the six largest stocks, which have been fueled by enthusiasm about artificial intelligence.

Small and mid cap investors, meanwhile, felt the brunt of shifting Fed expectations and a murky inflation picture. The Russell 2500™ Growth index declined more than 4 percent in the second quarter. Nine of the benchmark's 11 sectors declined; Industrials and Information Technology weighed heaviest on market performance. Communication Services and Utilities were the only sectors that generated modest gains.

**PERFORMANCE COMMENTARY**

The Riverbridge Smid Cap Growth strategy declined approximately 7.5 percent in the second quarter and trailed its primary benchmark, the Russell 2500 Growth, by more than 3 percent. Year-to-date, the strategy is down just over 4 percent, against a 4 percent increase for the index.

This was the worst relative performance the Smid Cap Growth strategy has experienced in the first six months of a year since its inception in December 2006. However, this is not the first time Riverbridge has encountered this type of challenge in its more than 35-year history. In several ways, the current environment resembles the dot com era of the late '90s, when our conservative growth style rotated out of favor and our strategies underperformed for several years. Currently, the Smid Cap Growth strategy is a little over two and a half years into its current down performance cycle.

Like the dot com period, market participants today are optimistic about an emerging technology platform and are trading into hardware and equipment companies amidst the frenzy to build out the necessary infrastructure, as well as more speculative, early-stage companies that are developing generative artificial intelligence applications. This rotation has come at the expense of business services companies, which continue to grow but have not seen an acceleration in demand for their capabilities. The Smid Cap Growth strategy holds many of these types of companies, as they tend to possess the characteristics we covet - strategic customer relationships, high degrees of recurring revenue, modest if any debt, and solutions that address mission critical needs.

**NEW BUYS**

There were no new securities.

**FULL SALES**

There were no liquidated securities.

**CONTRIBUTORS**

HEICO Corporation  
 Tyler Technologies, Inc.  
 Guidewire Software, Inc.  
 GoDaddy, Inc.  
 Exponent, Inc.

**DETRACTORS**

Five Below, Inc.  
 DoubleVerify Holdings, Inc.  
 Paycom Software, Inc.  
 West Pharmaceutical Services, Inc.  
 Floor & Decor Holdings, Inc.

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The aftermath of the dot com bubble, on the other hand, provides reasons for forward looking optimism. Though early demand can be staggering, once the infrastructure is built out, there tends not to be an encore that results in sustained earnings power for pure hardware players. In contrast, software and services companies tend to be well positioned to incorporate new technological capabilities into their solutions to strengthen their value proposition to new and existing customers; such companies have captured much of the value of the internet over the past 25 years, and we believe they will capture much of the enduring earnings power created by AI over the next 25.

In 2024, however, software and services have been some of the weakest areas in the Russell 2500 Growth index. From a contribution to return standpoint, three of the worst industries in the benchmark year to date have been Software (in IT), Life Sciences Tools and Services (in Health Care), and IT Services. The Smid Cap Growth portfolio is overweight all three industries, and in fact they represent, in that order, the three largest industry allocations for the strategy. The portfolio's large weight in these industries has been one of the largest headwinds to relative performance year-to-date.

At the company level, specialty retailer Five Below (FIVE) has been the largest detractor from performance in 2024 as it deals with store theft and a weakening low-end consumer. While these macro factors are impacting short-term results, the Riverbridge Investment Team remains confident in the management team's long-term ability to build additional stores, grow margins, and reinvest at high returns on capital. Five Below's new stores remain productive with high cash-on-cash returns, laying the foundation for sustained earnings power.

Heico (HEI), on the other hand, has been the strategy's largest contributor to year-to-date returns. Heico is a manufacturer of after-market replacement parts for the airline industry. The FAA mandates replacement of all parts on an aircraft on a fixed schedule based on the number of miles flown; Heico sells their approved parts to airlines at a significant cost savings to the original equipment manufacturers, and as such often become the sole supplier of parts consumed consistently over decades. Record travel demand has increased the demand for their products, and a recent acquisition has provided fruitful synergies.

## TRANSACTION COMMENTARY

The Riverbridge Investment Team did not make any new purchases or execute any full sales in the Smid Cap Growth strategy during the second quarter of 2024.

## OUTLOOK

To advance further, the market will likely need to broaden beyond the six largest companies, as they possess both lofty valuations and lofty expectations. If history is any guide, narrow, speculative markets tend not to persist for more than a few quarters. On a relative basis, a shift in leadership would likely be a boon for small and mid cap franchises.

The November election also injects elements of uncertainty into the markets. The election results will influence many elements of the economy that impact investor expectations, including the regulatory climate, monetary policy, and trading policies.

Regardless of the voluminous factors that promise to shape market returns in the second half of 2024, the Riverbridge Investment Team remains steadfast in its investment philosophy, which is centered on investing in companies possessing high degrees of recurring revenue while internally financing their growth. More importantly, we seek management teams that are prioritizing long-term earnings power over short-term reported earnings. Our portfolio companies continue to invest to strengthen their strategic market positions. We believe this focus on earnings power creates the foundation for compelling returns over a full market cycle.

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## Important Disclosure Information

Past performance is not indicative of future results. The mention of companies/stocks herein is for illustrative purposes only and should not be interpreted as investment advice or recommended securities. The securities identified do not represent all of the securities purchased, sold or recommended and the reader should not assume that any listed security was or will be profitable. There is no guarantee that the same or similar holdings will be purchased or held in accounts in the future. It should not be assumed that account holdings will correspond directly to any such comparative benchmark index. Comparative indices may be more or less volatile than Riverbridge portfolios. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions.

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Performance-related information provided in this document is presented as supplemental information to the GIPS Composite Report included herein. Riverbridge performance results reflect the reinvestment of dividends and other account earnings and are net of applicable account transaction charges. Performance results do not reflect the impact of taxes. Where presented, gross-of-fee performance figures presented do not reflect the deduction of investment advisory fees. A client's returns will be reduced by the advisory fee and other expenses incurred in the management of its account. For example, the deduction of a 1% advisory fee over a 10-year period would reduce a 10% gross return to an 8.9% net return. A description of our services and fees is included in our Brochure, ADV Part 2, which is available upon request.

## SMID CAP GROWTH COMPOSITE

Year	Gross-of-Fee Return (%)	Net-of-Fee Return (%)	Russell 2500™ Growth Return (%)	Portfolios	Dispersion (%)	Composite 3-Year Ex-Post Std. Dev.	Russell 2500™ Growth 3-Year Ex-Post Std. Dev.	Composite Assets (\$ Millions)	Ttl Firm Assets (\$ Millions)	Advisory Only (\$Millions)	Ttl Firm Assets & Advisory Only (\$Millions)
2023	21.61	20.74	18.93	114	0.78	20.43	20.95	1,092.3	7,429.2	4,432.2	11,861.5
2022	-31.56	-32.09	-26.21	115	0.48	23.15	25.18	1,101.4	6,279.5	3,892.8	10,172.3
2021	6.88	6.12	5.04	106	0.41	19.06	21.97	1,569.8	9,408.0	6,149.6	15,557.6
2020	47.90	46.84	40.47	83	0.83	20.53	23.93	1,459.6	8,478.1	4,896.5	13,374.6
2019	33.09	32.11	32.65	82	0.55	14.46	15.85	972.9	5,378.3	2,633.2	8,011.5
2018	0.44	-0.34	-7.47	82	0.48	14.65	15.33	996.2	4,737.1	1,842.0	6,579.1
2017	26.27	25.33	24.46	85	1.12	11.97	13.04	1,187.4	5,047.9	1,791.1	6,839.0
2016	8.58	7.73	9.73	86	0.49	13.45	14.67	942.6	4,686.7	1,546.6	6,233.3
2015	0.37	-0.42	-0.19	90	0.48	12.24	13.29	850.3	5,030.8	1,202.4	6,233.2
2014	3.90	3.08	7.05	112	0.36	11.31	12.53	957.3	5,523.2	1,215.6	6,738.8

**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 SMID Cap Growth Composite was created in January 2007 and its inception date was 12/31/2006. It is a diversified growth stock portfolio invested in small to mid capitalization growth companies. 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 2500™ Growth Index. The Russell 2500™ Growth Index includes the segment of securities within the Russell 2500™ Index with higher price-to-book ratios and higher forecasted growth values. The Russell 2500™ Index is an unmanaged index measuring the performance of the small to mid-cap U.S. equity universe. Composite dispersion is not presented for years with 5 or fewer accounts. The benchmark returns are gross of all fees and taxes. The composite minimum value is \$100,000. Prior to January 1, 2016, the composite minimum value was \$50,000.

Material risks of the strategy include stock market, business and economic development, liquidity, and foreign security risk. Leverage, derivatives, short positions and illiquid investments are not used in the strategy. As with any investment, an investor may lose money, and the strategy can underperform its benchmark. Investment in strategies is not insured by the FDIC or any other government agency.

**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. 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.

**Compliance Statement:** Riverbridge claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Riverbridge has been independently verified for the period 12/31/1989 – 12/31/2023. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. The SMID Cap Growth Composite has had a performance examination for the periods 01/01/2007 – 12/31/2023. The verification and performance examination reports are available upon request.

**Composite Benchmark:** The benchmark returns are not covered by the report of the independent verifiers. Any indices and other financial benchmarks shown are provided for illustrative purposes only. Information about indices is provided to allow for comparison of the performance of the Adviser to that of certain well-known and widely recognized indices. There is no representation that such index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of indices may be materially different from the performance of the Adviser. In addition, the Adviser's recommendations may differ significantly from the securities that comprise the indices.

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