ALL CAP GROWTH

Commentary — December 31, 2018

PERFORMANCE *(AS OF 12/31/2018)*

	4Q 2018	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Riverbridge All Cap Growth	**-14.49%**	**5.12%**	**5.12%**	**12.02%**	**9.06%**	**15.32%**	**11.04%**
Russell 3000® Growth	-16.33%	-2.12%	-2.12%	10.85%	9.99%	15.15%	8.83%
S&P 500®	-13.52%	-4.38%	-4.38%	9.26%	8.49%	13.12%	9.07%

Periods greater than one year are annualized; Performance is gross of fees; See p3 for net of fees; Inception Date: 9/30/1987

HIGHLIGHTS

- Outperformed the broader markets during a turbulent Q4 due portfolio companies reporting broad fundamental progress
- Information Technology, Industrials, and Materials holdings performed significantly better than benchmark
- Our self-financed, less economically sensitive businesses are poised for continued fundamental success regardless of short-term market movements because they are less impacted by rising interest rates and input costs

MARKET COMMENTARY

The fourth quarter of 2018 provided a fitting end to a turbulent year. This past year forced investors to contend with renewed volatility after a historically placid 2017. In the final three months of the year, U.S. indexes neared bear market territory under the combined influences of inflationary pressures, a hawkish Federal Reserve, trade wars, and decelerating economic growth. In the Russell 3000® Growth index, only one sector – Utilities – generated a positive return. Eight of eleven sectors posted double-digit declines; Information Technology, Consumer Discretionary, and Industrials were the index's biggest detractors. The FAANG stocks (Facebook, Apple, Amazon, Netflix, Google) that led the market's strong returns the first three quarters of 2018 experienced a sharp reversal in the fourth quarter. Except for Google, all FAANG stocks declined more than 20 percent.

PORTFOLIO COMMENTARY

The Riverbridge All Cap Growth portfolio was not immune to the difficult market in the fourth quarter but nevertheless outperformed its primary benchmark, the Russell 3000® Growth, by nearly two percent. Stock selection in the Information Technology, Industrials, and Materials sectors contributed to the strategy's relative returns. Slightly offsetting the All Cap Growth portfolio's outperformance, Consumer Staples and Financials were detractors versus the index, as was the strategy's lack of Real Estate holdings, which was one of the benchmark's better performing sectors. In spite of the market downturn, throughout 2018 Riverbridge's portfolio companies broadly exhibited strong fundamental progress, strengthened their strategic market positions, and generated compelling returns on their invested capital. For the full year 2018, the All Cap Growth strategy outperformed the Russell 3000® Growth by more than seven percent, rising approximately five percent against the benchmark's two percent decline.

Loyal readers are by now well versed in Riverbridge's unwavering focus on the fundamentals of our portfolio companies. The Investment Team spends its time and energy evaluating a company's strategic position within its marketplace, its reputation among peers, and its management team's long-term vision. At all times, our primary concern is whether the business is positioned to build enduring earnings power through sustainable unit growth and high returns on invested capital. When we invest in a company, we are thinking about where it will be in a decade, as opposed to the preponderance of managers who focus on the next quarter or next year.

Many financial publications noted that the stock market's performance in December 2018 was the worst December since the Great Depression. Though true, the fact is irrelevant, beyond the alarm it may cause a reader. Unlike 1931, the economy is on firm footing, corporate earnings are growing, and unemployment is near all-time lows. Fundamentals and stock prices decoupled in the fourth quarter; the long-term investor is well served to ignore the latter. In fact, in the wake of a rapid sell-off, the importance of a long-term view and deep fundamental research is magnified.

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This phenomenon is illustrated by one of our portfolio companies, Proto Labs, Inc. (PRLB). PRLB is a rapid manufacturer of prototype and production parts and was one of the All Cap Growth portfolio's worst performing stocks in the fourth quarter despite the company reporting strong fundamental progress and a positive outlook across all product lines and geographies. Relative to PRLB's long-term opportunity, its fourth quarter stock price performance was immaterial.

In a world without PRLB, a product designer builds a prototype made of parts that may or may not be compatible with full-scale manufacturing because they weren't created using production grade materials or processes. It is often the case that companies will rely on prototype parts to qualify an assembly process and product for customer use, only to find out after significant investment that the production grade parts behave differently and require rework. Enter PRLB, which receives a computer automated design (CAD) file through its web portal, uses its proprietary software to design and build the mold, and sends a fully manufactured part to the customer in 10 days or less, all for a few thousand dollars.

PRLB's capabilities are unique and difficult to displace, its value proposition is self-evident and compelling, its total addressable market is massive, and its management team is committed to investing in new capabilities that will drive sustainable, accretive growth. In addition to extensive interactions with the management team, we have bolstered our understanding of PRLB's strategic posture by meeting with customers, academics, distributors, and manufacturing equipment makers that possess deep knowledge in manufacturing technology.

Regardless of short-term stock price movements, PRLB remains a compelling long-term business in which the Investment Team remains highly convicted. Turbulent times such as the present remind us to focus on what endures rather than what is transitory.

OUTLOOK

Market participants will closely monitor corporate earnings in 2019. Investors expect a deceleration in earnings growth following the tax-cut driven 20 percent-plus earnings growth in 2018. However, the magnitude of this deceleration will be telling. According to IBES data, earnings for the S&P 500® are expected to grow eight percent in 2019. Should this figure prove optimistic, the markets will continue to feel pressure. In addition to earnings growth, inflationary pressures will be carefully monitored. With unemployment remaining at a 49-year low, conditions are ripe for wage driven inflation. Modest levels of wage-induced inflation are healthy. Too much of an increase, however, could spur the Fed to enact more interest rate hikes.

Overall, Riverbridge's portfolio companies are poised for continued success. They are less impacted by rising interest rates and borrowing costs because of their ability to internally finance their growth. More importantly, our portfolio companies, in aggregate, continue to exhibit healthy fundamentals and strengthening strategic market positions. Our portfolio companies tend to generate high levels of free cash flow and are generally less economically sensitive relative to the broader markets. This backdrop provides them a good chance to meet success against an uncertain macro backdrop.

ALL CAP GROWTH COMPOSITE

Year	Gross-of-Fee Return (%)	Net-of-Fee Return (%)	Russell 3000® Growth Return (%)	Portfolios	Dispersion (%)	Composite 3-Year Ex-Post Std. Dev.	Russell 3000® Growth 3-Year Ex-Post Std. Dev.	Composite Assets ($ Millions)	Firm Assets ($ Millions)
2017	25.73	24.78	29.59	96	0.69	10.21	10.62	357.7	5,047.9
2016	6.35	5.52	7.39	93	0.51	11.13	11.34	413.3	4,686.7
2015	5.52	4.68	5.09	89	0.53	10.54	10.80	379.9	5,030.8
2014	4.02	3.14	12.44	83	0.29	10.34	9.74	350.6	5,523.2
2013	37.98	36.86	34.23	68	0.46	11.52	12.49	302.1	5,718.3
2012	14.30	13.50	15.21	61	0.31	14.49	15.99	200.1	3,225.7
2011	4.30	3.33	2.18	59	0.72	17.37	18.17	180.1	2,558.0
2010	21.72	20.67	17.64	44	0.42			113.1	2,495.0
2009	34.60	33.49	37.01	49	1.10			107.4	1,737.1
2008	-29.01	-29.67	-38.44	55	0.83			54.0	989.2

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-oriented investment services by investing in growth equity securities, which it believes will provide high returns over the long term. The firm's standard fee schedule is an annual 1%.

Composite Characteristics: The All Cap Growth Composite was created in October 1987. It is a diversified growth stock portfolio invested in growth companies of all market capitalization ranges. A complete list and description of all firm composites is available upon request. The composite benchmark is the Russell 3000® Growth Index. The Russell 3000® Growth Index includes the segment of securities within the Russell 3000® Index with higher price-to-book ratios and higher forecasted growth values. The Russell 3000® Index is an unmanaged index measuring the performance of the broad U.S. equity universe. Prior to 2008, the Russell 2500™ Growth, Russell 1000® Growth, Russell 2000® Growth, and S&P 500® indexes were also shown for general market comparison purposes. The composite minimum value is $100,000.

Calculation Methodology: Valuations and returns are computed and stated in U.S. dollars. 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. Additional information for valuing portfolios, calculating performance and preparing compliant presentations is available upon request.

Other Disclosures: Riverbridge Partners, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Riverbridge Partners, LLC has been independently verified for the periods 12/31/1989 - 12/31/2017. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis, and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The All Cap Growth Composite has been examined for the periods 10/01/1987 - 12/31/2017. The verification and performance examination reports are available upon request. The benchmark returns are not covered by the report of the independent verifiers. Past performance does not guarantee future results. This performance report should not be construed as a recommendation to purchase or sell any particular securities held in composite accounts. Market conditions can vary widely and can result in a loss of portfolio value.

Performance Disclosures:

- Returns presented within this document are presented for gross-of-fee performance figures, which do not reflect the deduction of investment advisory fees. A client's returns will be reduced by the advisory fees 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 Riverbridge Partners' advisory fees are disclosed on Part 2 of its Form ADV, a copy of which is available upon request.
- Past performance does not guarantee future results.
- Performance results do not reflect the impact of taxes.
- 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.
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