Riverbridge

LARGE 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 Large Cap Growth	**-11.78%**	**0.43%**	**0.43%**	**10.49%**	**9.08%**	**13.61%**	**7.45%**
Russell 1000® Growth	-15.89%	-1.51%	-1.51%	11.15%	10.40%	15.29%	6.45%

Periods greater than one year are annualized; Performance is gross of fees; See p3 for net of fees; Inception Date: 12/31/1997

HIGHLIGHTS

- Outperformance due to fundamental strength of companies and stock selection in Consumer Discretionary, Industrials, Materials, and Consumer Staples sectors
- Fundamental characteristics of portfolio should limit impact of potential negative consequences of interest rate increases, tariffs, and trade wars
- High investor expectations pose biggest threat to bull market

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 Large Cap Growth portfolio was not immune to the difficult market in the fourth quarter but nevertheless outperformed its primary benchmark, the Russell 1000® Growth, by more than four percent. Stock selection in the Information Technology, Health Care, Consumer Discretionary, and Materials sectors contributed to the strategy's relative returns. Slightly offsetting the Large Cap Growth portfolio's outperformance was our lack of holdings in the Real Estate and Financials sectors, two 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 Large Cap Growth strategy outperformed the Russell 1000® Growth by nearly two percent, rising slightly against the benchmark's one and a half 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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Starbucks Corporation (SBUX) is a prime example of a long-term oriented company that consistently invests in building earnings power and driving sustainable returns on capital. Riverbridge has held SBUX in our Large Cap Growth portfolio since its inception in December 1997. In that time, SBUX has set a standard in the coffee industry to which competitors aspire by consistently innovating and evolving in order to deepen customer relationship and loyalty. They have demonstrated an understanding of their customers through investments in their mobile application, online ordering and payment, and rewards program. As we have conducted our due diligence over two decades, we have witnessed an organization that seeks to continually improve their guest experience, store efficiency, and capital returns.

More recently, SBUX has entered the Chinese market. Several members of the Riverbridge Investment Team visited China in 2018 to gain deeper insight into the company's efforts. What they experienced was SBUX's deep commitment to the market. The company is hiring local management teams, developing market specific products, and using design teams to ensure the SBUX experience is responsive and compelling to its guests. In addition, they are making a concerted effort to educate the Chinese consumer, who is much more accustomed to tea, about coffee, and quickly becoming a highly desirable employer for its partners. Among many aspects of SBUX's committed and thoughtful approach to China, the talent which they are attracting and retaining is impressive. This is in no small part due to the "Starbucks China Parent Care Program" rolled out in 2017, providing fully-sponsored critical illness insurance coverage to the parents of its full-time employees.

There is no certainty that coffee culture will develop in China the way it did in the US, but if it does, SBUX is in a position to be a leader in this nascent market and build enduring earnings power. They are thoughtfully and respectfully entering the market, and demonstrating a commitment to investing and innovating in ways that align with Chinese culture. Early indications are positive; SBUX's footprint is rapidly expanding and their stores are generating returns on capital at or above those generated in the U.S.

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.

LARGE CAP GROWTH COMPOSITE

Year	Gross-of-Fee Return (%)	Net-of-Fee Return (%)	Russell 1000® Growth Return (%)	Portfolios	Dispersion (%)	Composite 3-Year Ex-Post Std. Dev.	Russell 1000® Growth 3-Year Ex-Post Std. Dev.	Composite Assets ($ Millions)	Firm Assets ($ Millions)
2017	22.77	22.06	30.21	<5	N/A	9.52	10.54	0.6	5,047.9
2016	9.41	8.41	7.08	<5	N/A	10.18	11.15	0.6	4,686.7
2015	5.95	5.23	5.67	<5	N/A	10.34	10.70	0.3	5,030.8
2014	8.04	7.41	13.05	<5	N/A	8.83	9.59	0.2	5,523.2
2013	36.63	36.00	33.48	<5	N/A	11.44	12.16	34.2	5,718.3
2012	12.16	11.38	15.26	10	0.44	14.25	15.65	38.1	3,225.7
2011	-0.45	-0.87	2.64	11	0.65	17.45	17.75	36.0	2,558.0
2010	12.62	12.24	16.71	12	0.63			134.1	2,495.0
2009	34.98	34.56	37.21	<5	N/A			97.9	1,737.1
2008	-33.28	-33.47	-38.44	<5	N/A			22.9	989.2

NOTE: Prior to 10/01/2007, the returns presented for the Large Cap Growth Composite represent the returns of the Large Cap Growth Wrap Composite and represents pure gross of fee performance, gross of all management fees and transaction costs. The Large Cap Growth Wrap performance presented above represents pure gross of fee performance, gross of all management fees and transaction costs. All accounts in the Large Cap Growth Wrap composite have a bundled-fee arrangement. The bundled-fee includes broker fees, investment advisor fees, custodian fees and any administration fees. The firm's management fee for Large Cap Growth Wrap is based on wrap account agreements and is approximately annual 2%. The investment strategy employed is similar for both composites. Since the Large Cap Growth Composite did not have any accounts in it prior to 10/1/2007, we have appended the history of the Large Cap Wrap Composite to demonstrate our experience managing a large cap growth investment strategy. This information is being provided as supplemental information.

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 Large Cap Growth Composite was created in October 2007. It is a growth stock portfolio invested in medium and large capitalization growth companies. A complete list and description of all firm composites is available upon request. The composite benchmark is the Russell 1000® Growth Index. The Russell 1000® Growth Index includes the segment of securities within the Russell 1000® Index with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Index is an unmanaged index measuring the performance of the large-cap U.S. equity universe. Prior to 2008, the S&P 500® Index was also shown for general market comparison purposes. Composite dispersion is not presented for years with 5 or fewer accounts. 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 Large Cap Growth Composite has been examined for the periods 10/01/2007 - 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 over time 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.
- Riverbridge performance results reflect the reinvestment of dividends and other account earnings, and are net of applicable account transaction charges.
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