

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

	4Q 2018	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Riverbridge Mid Cap Growth	-16.34%	-2.33%	-2.33%	8.16%	N/A	N/A	5.71%
Russell Midcap® Growth	-15.99%	-4.75%	-4.75%	8.59%	N/A	N/A	6.77%

*Periods greater than one year are annualized; Performance is gross of fees; See p3 for net of fees; Inception Date: 6/30/2014*

**HIGHLIGHTS**

- Slightly underperformed the broader markets during a turbulent 4Q despite portfolio companies reporting broad fundamental progress
- The portfolio's sector weightings relative to the benchmark detracted from performance; stock selection contributed to performance overall, with largest outperformance in Industrials offset by underperformance in Information Technology
- 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, small and mid cap stocks entered bear market territory under the combined influences of inflationary pressures, a hawkish Federal Reserve, trade wars, and decelerating economic growth. In the Russell MidCap® Growth index, only one sector - Utilities - generated a positive return. Eight of the index's eleven sectors declined double digits. The Information Technology, Health Care, Industrials, and Consumer Discretionary sectors were the biggest performance detractors from the index.

**PORTFOLIO COMMENTARY**

The Riverbridge Mid Cap Growth portfolio was not immune to the difficult market in the fourth quarter and slightly underperformed its primary benchmark, the Russell MidCap® Growth index. For the full year 2018, the Mid Cap Growth portfolio outperformed its benchmark by more than two percent. In the fourth quarter, the portfolio's Industrials holdings significantly outperformed the index, but this was partially offset by underperformance of our Information Technology holdings. Despite better stock performance than the benchmark, the portfolio's significant holdings in the Industrials sector detracted from relative performance. In the midst of a volatile market, throughout 2018 Riverbridge's portfolio companies broadly exhibited strong fundamental progress, strengthened their strategic market positions, and generated compelling returns on their invested capital.

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.

Ultimate Software, Inc. (ULTI) is a prime example of a portfolio company with a long-term oriented management team which has achieved sustained fundamental progress for the decade-plus we have owned the company in one of our portfolios. ULTI has been a constituent in our Mid Cap Growth portfolio since its inception in 2014. ULTI is a next generation human capital management software-as-a-service (SaaS) provider to mid- and large-sized organizations.

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Within this critical core function for any business, ULTI has created significant differentiation through its unique culture and the loyal, high caliber employees it attracts, and through wise capital allocation into additional capabilities that add significant value to customers and build ULTI's long-term earnings power.

The Riverbridge Investment Team has interacted with ULTI's entire ecosystem for more than a decade, including customers, employees, and competitors. What stands out consistently is the company's commitment to maximizing the human capital within its sphere of influence, a key social factor for any software company. ULTI hires people, not roles. It seeks values and cultural alignment and consistently provides opportunities for new roles, career development, and exploration. Instead of just asking what a prospective employee brings to the table, ULTI makes a value proposition to new hires: if we are a mutual fit, our goal is to keep you for life. Undoubtedly, ULTI's commitment to providing benefits such as 100% employer-paid health coverage, paid maternity and paternity leave, tuition reimbursement, and paid time off for community service help attract high caliber employees. Throughout our interactions with employees, it is consistently clear that ULTI's management truly embodies its promise to put its people first.

In turn, ULTI's commitment to human capital in turn drives its financial success. Based on extensive interactions with the company and peers, we have gained the insight that the company has the longest tenured and most reputable sales people in the industry. ULTI's loyal, high caliber employees retain clients at a high rate and consistently deliver more value to their customers by understanding their needs and offering additional capabilities that drive higher quality and more efficient human capital management. An industry leading salesforce combined with disciplined capital deployment into developing additional HR capabilities beyond its core payroll solution has allowed ULTI to increase its per employee per month revenue from \$5 to \$40 over the past 20 years. ULTI's distinct culture and long-term oriented management team position the company to continue to build their enduring earnings power.

## 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.

Past performance is not indicative of future results. 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. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Riverbridge) or any other discussion made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful.

You should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from Riverbridge. Performance related information provided in this document is presented as supplemental information to the compliant presentation included herein. A description of our services and fees is included in our Brochure, ADV Part 2, which is available upon request.

## MID CAP GROWTH COMPOSITE

Year	Gross-of-Fee Return (%)	Net-of-Fee Return (%)	Russell Midcap® Growth Return (%)	Portfolios	Dispersion (%)	Composite 3-Year Ex-Post Std. Dev.	Russell Midcap® Growth 3-Year Ex-Post Std. Dev.	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2017	21.80	21.21	25.27	<5	N/A	10.66	10.89	0.07	5,047.9
2016	6.37	5.83	7.33	<5	N/A			0.05	4,686.7
2015	-3.88	-4.35	-0.20	<5	N/A			0.05	5,030.8
2014*	5.57	5.33	5.07	<5	N/A			0.05	5,523.2

\*Returns are for the period from 06/30/2014 through 12/31/2014.

**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 Mid Cap Growth Composite was created in June 2014. It is a diversified growth stock portfolio invested in 30-55 companies of mid market capitalization size. This strategy generally invests in companies with market capitalizations of \$3 billion to \$30 billion. A complete list and description of all firm composites is available upon request. The composite benchmark is the Russell Midcap® Growth Index. The Russell Midcap® Growth Index includes the segment of securities within the Russell Midcap® Index with higher price-to-book ratios and higher forecasted growth values. The Russell Midcap® Index is an unmanaged index measuring the performance of the mid-cap U.S. equity universe. Composite dispersion is not presented for years with 5 or fewer accounts. The composite minimum value is \$50,000. Prior to January 1, 2016, the composite minimum value was \$100,000.

**Calculation Methodology:** Valuations and returns are computed and stated in U.S. dollars. Individual portfolios are revalued daily. Gross-of-fee returns are calculated net of transaction costs and gross of management fees. 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 three-year annualized standard deviation figure presented in 2017 is not presented for years prior as the composite did not have 36 monthly returns as of the specified date. 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 Mid Cap Growth Composite has been examined for the periods 07/01/2014 – 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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