MARCH 31, 2024

Balanced Fund

FIRST QUARTER RESULTS

MAIRS & POWER

Focused Long-term Investing

Market Overview | First Quarter 2024

The market's performance continues to hinge on the "Magnificent 7" Technology stocks, which have accounted for the majority of the S&P 500's returns so far this year. Nvidia (NVDA) alone gained about 80% in the first quarter and almost all of the performance has come from the so-called "Fab Four" that consists of Nvidia, Meta (META), Microsoft (MSFT), and Amazon (AMZN). As a result, the S&P 500 Total Return (TR) rose 10.56% in the first quarter and the Dow Jones Industrial (TR) gained 6.14%. Meanwhile, the Bloomberg U.S. Government/Credit Bond Index was -0.72%.

The economy's steadiness—even with interest rates continuing to be elevated—has helped keep the market afloat this year. GDP rose 3.4% in the fourth quarter and increased 2.5% for all of 2023. Other economic indicators remain mixed, though in general they've been modestly positive.

Many of the economic trends we witnessed in 2023 continued through the first quarter. Corporate profits, for instance, have been better than expected, job growth has remained steady, and the unemployment rate is still near record lows. The services side of the economy has continued to grow at a modest pace while the manufacturing side of the economy has remained lethargic. However, there has been some improvement recently with manufacturing indicators, which could mean renewed growth in that part of the economy as well. Meanwhile, consumer confidence is still slumping after a short-lived rebound in the holiday season.

On the positive side, new-home construction has been rising, and existing home sales jumped in both January and February from the previous months. Still, February 2024 sales were 3.3% lower than those in February 2023, and mortgage rates remain elevated.

While inflation is moderating, the pace of that moderation has slowed since last summer. The personal-consumption expenditures price index (PCE), which is the Federal Reserve's preferred inflation measure and includes food and energy prices, hit 3.2% in February in 2024 after falling to 3% in June 2023. For many households, expenses remain stubbornly high, and high interest rates continue to weigh on small businesses and lower income consumers.

One under-the-radar reason for the economy's steady growth has been a rise in productivity. The Federal Reserve of St. Louis found that business output per hour worked jumped 2.7% in the fourth quarter of 2023 from a year earlier. These gains may be short-term, but we believe there's potential for a more durable AI-powered productivity boom in the offing. AI could help companies in numerous industries relieve labor shortages, boost capital utilization, and make more efficient use of raw materials and supply chains.

Future Outlook

Due to stickiness in inflation, the Federal Reserve (the Fed) has waffled on whether to expect three interest rate cuts or the potential for none. The question now is whether inflation will continue to ease. The small jump in the PCE index in February may be a blip. Or it may be a sign that inflation is still too high for the Fed to feel confident about cutting rates.

Besides uncertainties around inflation, there are other economic factors that are cause for concern going forward. The manufacturing sector has been sluggish, small businesses continue to struggle, and the outlook for the housing market remains gloomy.

Another concern is whether consumers will be willing and able to keep spending. Retail spending has been continuing to grow, but it's doing so at a slower rate. Meanwhile, credit card debt is rising, the savings rate is softening, and the percentage of people taking out loans on their 401(k)s in 2023 was above the pre-pandemic average (3.6% versus 2.8%). None of this is reason for investors to worry, at least not yet. But these trends do suggest a potential decline in consumer activity this year.

However, there are some rays of hope. The job market remains robust, but with wage growth moderating and labor force participation up, this is a potentially positive story for interest rates. As more people enter the labor market, it could ease competition for employers and lead to lower wages. Also, retail spending is growing, even if at a slower rate.

While earnings growth, a traditional measure of market strength, was flat last year outside of the "Magnificent 7," overall earnings growth projections for the next two years are more positive. At the same time, many stocks in sectors other than Technology are signaling the potential for a broadening of the market. We see opportunities in small-cap and "Old Economy" companies, particularly those that we think will be able to harness artificial intelligence (AI) and other technologies to drive productivity and revenue gains.

Obviously, AI and its exciting transformative possibilities have driven the market in the last year. We believe the investments we have made in companies serving as "pick and shovel" providers of AI that are crafting tools for businesses of all kinds to utilize, as well as small cap and "Old Economy" names trading at discounts, places us in a positive position to take advantage of this significant shift in the economy.

As we head into the second quarter of 2024, we remain committed to investing in companies with durable competitive advantages for the long-term and will continue to leverage the investment process and philosophy which has brought us success across entire economic cycles.

Performance Review

The Mairs & Power Balanced Fund finished the first quarter of 2024 up 5.66%. The Fund lagged the benchmark composite index (60% S&P 500 Total Return Index and 40% Bloomberg U.S. Government/Credit Bond Index), which was up 5.96%, while the Fund outperformed the Morningstar Moderate Allocation peer group, which rose 5.31%.

Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. For the most recent month-end performance figures, please call Shareholder Services at (800) 304-7404. Expense Ratio 0.69%.

The Fund continues to have an overweight allocation to equities which benefited performance as stocks outperformed bonds during the period. Stocks rose during the quarter as continued strength in the economy helped support expectations for future earnings growth. Meanwhile, bonds had negative total returns as the economic strength indicated interest rates may stay higher longer than many had expected at the beginning of the year.

While the narrative of 2023 was narrow equity market leadership in a handful of mega-cap stocks, 2024 has begun with some market broadening. Still, the Fund's equities portfolio lagged its respective benchmark during the quarter. The excitement around the opportunity of generative artificial intelligence (AI) technology has continued from last year, but to a lesser extent. We see significant opportunities with companies that we believe will be able to benefit from the implementation of AI and plan to continue improving our portfolio accordingly.

Healthcare is the Fund's largest sector exposure and several of the Fund's top holdings lagged during the period. UnitedHealthcare (UNH) underperformed during the quarter due to higher payouts for healthcare provision, a recent cyberattack, and news that the United States Department of Justice (DOJ) was opening an antitrust probe against the company. Bio-Techne (TECH) also had disappointing returns as the company lowered expectations for future growth due to a weak biopharma funding environment. Conversely, the optimism for Eli Lilly (LLY) surrounding its Zepbound branded weight loss treatment helped it to outperform meaningfully. We took the opportunity to trim the Fund's position in Lilly after its recent performance, and we also trimmed the Fund's holdings in Bio-Techne given the lowered future expectations for growth.

The Technology sector selection negatively affected relative performance, mostly driven by the absence of NVIDIA (NVDA) from the portfolio. Negative trends in consumer electronics, industrial, and automotive markets during the quarter adversely impacted our holding in Littelfuse (LFUS). Positively, the bottom of the semiconductor cycle appears to be in, and the renewed optimism around semiconductor companies benefited holdings such as Entegris (ENTG) and Qualcomm (QCOM).

The Fund's underweight allocation to the consumer segments helped relative performance during the quarter as the sector generally lagged on weaker consumer numbers and selection also aided relative performance. Target (TGT) outperformed as the company beat earnings expectations and laid out a promising growth outlook along with a cost savings plan to improve its profit margins. Target also noted that it plans to incorporate AI for better personalization of marketing and a better customer experience.

Conversely, three years of low cocoa production in West Africa has led to a cocoa shortage affecting input prices for Hershey (HSY), which underperformed during the quarter.

Robert W. Thompson, CFA
Co-Manager
left

Kevin V. Earley, CFA
Lead Manager
right

The Financials sector delivered positive relative performance during the quarter due to security selection within the sector. Fiserv (FI) outperformed as the company has been successful with its core banking and payments processing businesses but also with its Clover payments terminals platform, which are increasingly common at retail checkout counters. JPMorgan (JPM) and Wells Fargo (WFC) outperformed as these companies are poised to benefit from a potential improvement in credit conditions. Wells Fargo also benefited from having its primary consent decree lifted, helping to pave the path for removal of the asset cap imposed by the Federal Reserve in 2018. Conversely, US Bancorp (USB) underperformed as the company's expenses have outpaced its peers and funding pressure persists for many regional banks.

Casey's General Stores (CASY) was a new company for the portfolio this quarter. The company operates convenience stores located across the Midwest, with a focus on rural areas where it is often the go-to store for small market consumers. The company is a high-quality operator which should perform well through the eventual transition to electric vehicles due to its rural/exurban footprint.

Procter & Gamble (PG) was another new company for the Fund during the quarter. Procter & Gamble enjoys a durable competitive advantage due to its portfolio of well-known consumer brands, including Tide, Crest, and Swiffer.

Lastly, we added Ameriprise (AMP) to the portfolio during the quarter. Ameriprise has an enviable position within the wealth management space where it serves high net worth clients through its network of more than 10,000 advisors. The company appears poised for continued growth based on favorable asset flows in its wealth management business.

At the end of the 2023, the prevailing notion in fixed income markets was that interest rates were going to decline, and that they were going to decline fast. The continued strength of the US economy helped shift that narrative in the first quarter, as the 10-year yield rose from 3.88% at the beginning of the year to 4.20% at quarter-end. Along with the economic strength, corporate bond spreads have reached levels largely unseen since the financial crisis, offering less additional compensation to bondholders for taking on credit risk. The Fund's portfolio is overweight to corporate bonds and is generally shorter duration than the index. Both factors worked in the Fund's favor during the quarter, leading to relative outperformance on the fixed income portfolio. We continue to execute on our strategy in fixed income, whereby we seek pockets of value and selectively research and buy bonds to help us achieve long-term outperformance.

Return on equity (ROE) is the measure of a company's net income divided by its shareholders' equity.
Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

We continuously assess market conditions to determine how the rate outlook could impact each company, both from an earnings and valuation perspective. We prefer companies with durable competitive advantages and attractive long-term growth prospects as this generally leads to sustainable investment returns over time. The Fund's equity style has been less in vogue over the last year as our focus on dividend stocks at reasonable valuations has led us to be underweight the mega-cap leadership group. With current rates portending better fixed income returns, we have increased the fixed income weighting in the portfolio while keeping duration in check and seeking opportunities to improve credit quality in the face of tight credit spreads. We believe our consistent investment approach to both stocks and bonds will deliver sustainable performance over the long term.

Mairs & Power Balanced Fund Contributors

Year-to-Date (%) 12/31/2023—3/31/2024

LARGEST CONTRIBUTORS TO RELATIVE PERFORMANCE		LARGEST DETRACTORS FROM RELATIVE PERFORMANCE	
Walt Disney Company	35.52	Xcel Energy Inc.	-12.26
Eli Lilly & Company	33.69	Littelfuse, Inc.	-9.18
Fiserv, Inc.	20.31	Bio-Techne Corporation	-8.67
JPMorgan Chase & Co.	18.48	UnitedHealth Group Inc.	-5.66
Ecolab Inc.	16.70	Toro Company	-4.17

Largest relative contributors and detractors are securities that were selected based on their contribution to the portfolio as of March 31, 2024. The performance number shown is total return of the security for the period and includes only securities held for the entire period. Total return is the amount of value an investor earns from a security over a specific period and when distributions are reinvested. Past performance does not guarantee future results.

The Fund's investment objective, risks, charges and expenses must be considered carefully before investing. The summary prospectus or full prospectus contains this and other important information about the Fund and they may be obtained by calling Shareholder Services at (800) 304-7404 or by visiting www.mairsandpower.com. Read the summary prospectus or full prospectus carefully before investing.

The stocks mentioned herein represent the following percentages of the total net assets of the Mairs & Power Balanced Fund as of March 31, 2024: Amazon.com 0.00%, Ameriprise Financial Inc. 0.28%, Bio-Techne Corp. 0.99%, Casey's General Stores Inc. 0.81%, Ecolab, Inc. 2.05%, Eli Lilly & Company 1.83%, Entegris Inc. 0.94%, Fiserv Inc. 2.59%, Hershey Co. 1.37%, JPMorgan Chase & Co. 2.74%, Littelfuse 1.35%, Meta Platforms Inc. 0.00%, Microsoft Corp. 3.95%, NVIDIA Corp. 0.00%, Procter & Gamble Co. 0.76%, Qualcomm Inc. 1.46%, Target Corp 0.81%, Toro Company 1.98%, UnitedHealth Group Inc. 2.38%, US Bancorp 1.67%, Walt Disney Co. 1.43%, Wells Fargo & Co. 1.16%, Xcel Energy Inc. 1.26%.

All holdings in the portfolio are subject to change without notice and may or may not represent current or future portfolio composition. The mention of specific securities is not intended as a recommendation or an offer of a particular security, nor is it intended to be a solicitation for the purchase or sale of any security.

Average Annualized Returns (%) as of 3/31/2024

Fund/Index	1 YR	5 YR	10 YR	25 YR	SINCE INC
Mairs & Power Balanced Fund[1]	**16.54**	**8.04**	**7.20**	**7.49**	**9.42**
Composite Index[2]	17.99	9.41	8.58	6.54	8.94
Morningstar Category[3]	15.16	7.38	6.14	4.92	—
S&P 500 TR Index[4]	29.88	15.05	12.96	7.78	—
Bond Index[5]	1.74	0.62	1.70	3.93	—

Expense Ratio 0.69%

Inception 1/10/1961

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[1] Performance information shown includes the reinvestment of dividend and capital gain distributions, but does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.

[2] The Composite Index reflects an unmanaged portfolio of 60% of the S&P 500 TR Index and 40% of the Bloomberg Barclays U.S. Government/Credit Bond Index. It is not possible to invest directly in an index.

[3] Morningstar Moderate Allocation Category seeks to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold larger positions in stocks than conservative-allocation portfolios. These portfolios typically have 50% to 70% of assets in equities and the remainder in fixed income and cash. It is not possible to invest directly in an index.

[4] The S&P 500 TR (Total Return) Index is an unmanaged index of 500 common stocks that is generally considered representative of the U.S. stock market. It is not possible to invest directly in an index.

[5] Bloomberg Government/Credit Bond Index is a broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. It includes investment-grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.

Dow Jones Industrial Average TR Index is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

The Russell 1000 Index represents the top 1000 companies by market capitalization in the United States. The Growth index is composed of large- and mid-capitalization U.S. equities that exhibit value characteristics . The Value index is composed of large- and mid-capitalization U.S. equities that exhibit value characteristics.

One cannot invest in an index.

Risks: All investments have risks. Mairs & Power Balanced Fund is designed for long-term investors.

The Fund's share price can fall because of weakness in the broad market, a particular industry or specific holdings. Investments in small and midcap companies generally are more volatile. International investing risks include among others political, social or economic instability, difficulty in predicting international trade patterns, taxation and foreign trading practices and greater fluctuations in price than U.S. corporations. The Balanced Fund is subject to yield and share price variances with changes in interest rates and market conditions. Investors should note that if interest rates rise significantly from current levels, bond total returns will decline and may even turn negative in the short-term. There is also a chance that some of the Balanced Fund's holdings may have their credit rating downgraded or may default.

Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower rated and non-rated securities present a greater risk of loss to principal and interest than higher rated securities.

This commentary includes forward-looking statements such as economic predictions and portfolio manager opinions. The statements are subject to change at any time based on market and other conditions. No predictions, forecasts, outlooks, expectations or beliefs are guaranteed.

Foreside Fund Services, LLC. is the Distributor for Mairs & Power Funds.

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