MARCH 31, 2024

Growth 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 Growth Fund started off the year on a positive note growing 10.80%, outperforming the S&P 500 TR that was up 10.56% and its peer group measured by the Morningstar Core Index that was up 9.87%.

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 0.63%.

Both sector allocation and stock selection contributed to the Fund's relative performance. Almost every sector logged gains in the first quarter, except real estate, which declined slightly. Since the Fund does not have any direct exposure to the Real Estate sector, this was a small benefit to relative performance. While the market did broaden out somewhat, a good chunk of the market's gains were driven by just four companies, the so-called "Fab Four" that consists of Meta (META), Nvidia (NVDA), Microsoft (MSFT), and Amazon (AMZN), which were spurred on by the excitement around artificial intelligence (AI) and the prospect of lower interest rates as inflation abates.

Excluding Meta, the Mairs & Power Growth Fund holds large positions in these stocks and benefited from their continued strength. Notably, Nvidia extended its meteoric rise, increasing more than 80% in the first quarter. The company is seeing astronomical demand for its graphic processing chips that power generative AI. We remain impressed with NVDA's capabilities and believe that generative AI will have a profound effect on many industries, particularly healthcare, banking, and telecommunications.

Market pundits have begun to comment that the market's valuation remains rich relative to its long-term average. While true, most of the market's valuation is being driven by the same handful of stocks that have powered its returns. Many businesses outside of the Technology sector have not fared as well and we continue to find attractive opportunities in "Old Economy" sectors. We are especially interested in businesses that could harness artificial intelligence to boost revenue and/or drive cost efficiencies.

Healthcare is especially ripe to benefit from advancements in AI. Over the past century, we have made incredible strides in medicine. Once incurable viruses are now treatable, and once terrorizing plagues have been nearly wiped out. The speed in which pharmaceutical companies developed COVID vaccines during the Pandemic is a testament to this progress. Despite these innovations, pharmaceutical companies have only scratched the surface in identifying potential life-saving molecules.

Basis Points (bps) is one hundredth of a percent and shows the change in value or rate of a financial instrument.

Roche (RHHBY), a long-term holding of the Fund, has partnered with Nvidia with the hope of using AI to increase the speed of designing new drugs. Developing a drug from scratch can take a decade or more, but AI could truncate this timeline considerably. Despite recent setbacks, Roche remains the world's largest biotechnology company with a robust pipeline of promising biologics. While our investment in Roche is not contingent on its AI initiatives, the company should be on the leading edge if an AI breakthrough does occur in drug development.

During the quarter, the Mairs & Power Growth Fund continued to build up its position in Verizon (VZ), another potential beneficiary of AI. By utilizing AI, Verizon aims to construct a digital replica of a city down to the placement of buildings, terrain, and even foliage. By creating a digital twin, Verizon should be able optimize the demand and efficiency of its network and potentially create a better user experience. AI also has the potential to bolster the company's profitability. Every day, the company handles three million customer transactions including nearly 400,000 calls and emails. Generative AI could enable the company to automate many of these transactions.

We added two smaller positions to the portfolio in the first quarter as well—Casey's General Stores (CASY) and Ulta Beauty (ULTA). Casey's is a convenience store chain based in Ankeny, Iowa with roughly 2,500 stores in 16 states but with the majority of stores located in Iowa, Missouri, and Illinois. The company focuses on smaller rural markets, in which it builds regional ties and becomes more than just a gas station to residents. Each store carries over 3,000 items including snacks, beverages, beauty, and alcohol products, as well as its own private-label brand. The convenience store market is highly fragmented, and Casey's holds a small share despite being the third largest chain in the nation. Management has done a remarkable job of consistently growing sales and sees opportunities to expand its private-label brand and to grow share both organically and inorganically.

Ulta, based in Bolingbrook, Illinois, is the largest beauty specialty retailer in the United States with more than 1,300 stores. Ulta stores offer a one-stop shop for mass, professional, and prestige beauty brands in convenient suburban locations. In addition, the company has cultivated a loyal customer base with more than 40 million reward members. Unlike other forms of merchandise, consumers prefer to shop for beauty products in-store versus online. The company believes it can grow its store base to 1,500–1,700 stores by adding 40–50 stores per year. Ulta is also the preferred beauty retailer amongst Generation Z and Millennials, so the chain should gain share as these cohorts age.

Andrew R. Adams, CFA
Lead Manager

Pete J. Johnson, CFA
Co-Manager

We are pleased by the Fund's start to the year and delighted that our investments in Technology have proved highly profitable. We believe we are well positioned for the emergence of AI, and at the same time, we remain committed to our disciplined investment approach. Since the market has been driven largely by just a handful of stocks, we are finding impressive value outside of the Technology sector and are keenly focused on companies that can leverage AI to enhance revenue and boost profitability.

Mairs & Power Growth Fund Contributors

Year-to-Date (%) 12/31/2023—3/31/2024

LARGEST CONTRIBUTORS TO RELATIVE PERFORMANCE		LARGEST DETRACTORS FROM RELATIVE PERFORMANCE	
NVIDIA Corporation	82.46	Workiva Inc. Class A	-16.48
nVent Electric PLC	28.03	Littelfuse, Inc.	-9.18
Fiserv, Inc.	20.31	Bio-Techne Corporation	-8.67
JPMorgan Chase & Company	18.48	UnitedHealth Group Inc.	-5.66
Apple Inc.*	-10.82	Toro Company	-4.17

*Since the Fund is underweight Apple Inc. relative to the benchmark, the stock's weakness in the first quarter contributed positively to relative performance.

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 Growth Fund as of March 31, 2024: Amazon.com, Inc. 5.71%, Apple Inc. 2.25%, Bio-Techne Corp. 1.98%, Casey's General Stores Inc. 0.25%, Fiserv Inc. 2.89%, JPMorgan Chase & Co. 4.62%, Littelfuse Inc. 2.10%, Meta Platforms Inc. 0.00%, Microsoft Corp. 10.11%, nVent Electric PLC 1.98%, NVIDIA Corp. 6.04%, Roche Holdings 1.39%, Toro Company 2.86%, Ulta Beauty Inc. 0.48%, UnitedHealth Group Inc. 4.75%, Verizon Communications Inc. 2.64%, Workiva Inc. 0.80%.

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 Growth Fund[1]	**31.90**	**13.84**	**11.15**	**10.58**	**11.49**
S&P 500 TR Index[2]	29.88	15.05	12.96	7.78	10.55
Morningstar Large Blend Category[3]	26.83	12.88	10.69	6.03	—

Expense Ratio 0.63%

Inception 11/7/1958

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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] S&P 500 TR Index is an unmanaged index of 500 common stocks that is generally considered representative of the U.S. stock market.

[3] Morningstar large-blend portfolio are fairly representative of the overall U.S. stock marketing in size, growth rates, and price. Stocks in the to 70% of the capitalization of the U.S equity market are defined as large-cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries, and owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500 Index.

S&P Small Cap 600 TR Index is an index of small-company stocks managed by Standard and Poor's that covers a broad range of small cap stocks in the U.S. The index is weighted according to market capitalization and covers 3-4% of the total market for equities in the U.S. It tracks both the capital gains of a group of stocks over time and assumes that any cash distributions, such as dividends, are reinvested back in the index.

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.

The Dow Jones Industrial (TR) is a price-weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and 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 Growth Fund is designed for long-term investors.

Equity investments are subject to market fluctuations and the Fund's share price can fall because of weakness in the broad market, a particular industry or specific holdings. Investments in small and mid-cap 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.

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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mairsandpower.com

MAIRS & POWER

30 East 7th Street, Suite 2500
St. Paul, MN 55101

Tel 800-304-7404