

Mairs & Power Small Cap MSCFX

Calmer waters ahead.

Morningstar's Take MSCFX

Overall Morningstar Rating™ ★★★

585 US Fund Small Blend
(29 Feb 2024)

	3 Yr 585 funds	5 Yr 553 funds	10 Yr 384 funds
Morningstar Rating™	3★	3★	3★

Morningstar Medalist Rating™ Silver

Analyst-Driven %	100.00
Data Coverage %	100.00

Morningstar Pillars

Process (29 Feb 2024)	Above Average
People (29 Feb 2024)	Above Average
Parent (27 Feb 2023)	Above Average
Performance (29 Feb 2024)	
Price (29 Feb 2024)	

29 Feb 2024 | by Tony Thomas

Mairs & Power Small Cap has deftly navigated a difficult personnel situation, positioning this small-blend strategy for long-term success.

Strategy founder Andy Adams has successfully reduced his role here. Adams, who is now Mairs & Power's CIO, has led the firm's flagship Mairs & Power Growth MPMGX since 2019. That year, he handed this strategy's reins to comanager Al Steinkopf, but Steinkopf's unexpected illness and eventual passing in 2022 required a new plan. Adams briefly resumed the helm to aid comanager Chris Strom's development and to acclimate veteran Twin Cities investor Mike Marzolf to the firm and this team. Marzolf, hired in December 2021, progressed faster than Adams anticipated, and in June 2023 Marzolf took the lead here as Adams stepped back into a comanager role alongside Strom. The three-person team intends to be in place for at least the next few years.

Not much changed in the process during this period. Small-cap companies usually don't have much analyst coverage, so to gain an information advantage, this Mairs & Power team embraces its St. Paul-based firm's preference for Upper Midwest companies. Throughout its history, this strategy has invested about 75% or more of its assets in the region. Even so, its portfolio is regularly diversified by sector and industry. The managers also continue to seek profitable, competitively advantaged firms among the thousands of options in the small-cap universe.

The strategy has set—and cleared—a high bar for its performance. It benchmarks to the S&P SmallCap 600 Index. Unlike the more-familiar Russell 2000 Index, it focuses on profitable companies. Over the long term, it has proven to be better to invest in money-making businesses—especially among small caps—and this strategy has capitalized on that. The mutual fund's 11.8% annualized return from its August 2011 inception through January 2024 narrowly beat the S&P SmallCap 600 Index's 11.7% but bested the Russell 2000 Index and typical small-blend Morningstar Category peer by wider margins.

With Marzolf as the new lead and Adams still involved, this remains a worthy small-cap offering.

Process ● Above Average | Tony Thomas | 29 Feb 2024

A prudently tailored approach that leverages local contacts earns an Above Average Process rating.

The guiding principle of all Mairs & Power strategies is to buy and hold financially sound businesses with durable competitive advantages and above-average returns on equity. The managers here sensibly adjust this for small-cap companies, which might need to reinvest profits or borrow in order to grow market share or enhance their competitive position. To capture this kind of business spending, the managers rely on the more-

comprehensive return on invested capital as a key metric.

Yet there's an unusual twist. The managers prefer companies based near their firm's St. Paul, Minnesota, office or in the Upper Midwest more broadly. Looking locally can help them gain valuable perspective on firms that often aren't covered by Wall Street analysts, but it also limits the opportunity set.

The managers take meaningful steps, however, to compensate for that narrow focus and reduce risk. Their portfolio is reasonably diversified by sector. They help mitigate liquidity concerns by keeping individual positions under 4% of assets each and owning less than 10% of any given company. They also closed the strategy to new investors from 2016 to 2018 to keep total assets at conservative, deployable levels. A 14-member investment committee (which includes these managers) ensures consistency by vetting prospects and evaluating firms according to Mairs & Power's long-standing principles.

This strategy is rare in that it benchmarks to the S&P SmallCap 600 Index. Unlike the Russell 2000 Index category benchmark, it targets profitable companies. That said, this strategy generally holds its own on measures of profitability. The December 2023 portfolio's average returns on assets, equity, and invested capital were mostly in line with the S&P index but well ahead of the Russell 2000 Index. That's despite sharing only 10 of its 42 stock holdings with the S&P index. This lack of overlap gave the strategy a healthy 97% active share (a measure of a portfolio's difference from its benchmark and an indication of its opportunity for distinctive performance) in December. The portfolio's sector makeup also stands out: It typically has large stakes in industrials and financials—and, more recently, technology—compared with the S&P index, though it tends to have less in consumer cyclicals, real estate, and energy.

The emphasis on Upper Midwest companies is more pronounced here than in any other Mairs & Power mutual fund. Firms based in Minnesota, Wisconsin, Illinois, Iowa, or the Dakotas held 74% of assets in December 2023 and were seven of the portfolio's top 10 holdings.

While the portfolio has a consistent small-cap orientation overall, the managers are willing to hold—and occasionally buy—mid-cap stocks such as semiconductor firm Entegris ENTG. The \$20 billion market-cap company, first bought in early 2022, was a top-20 holding here in late 2023.

People ● Above Average | Tony Thomas | 29 Feb 2024

This team retains its Above Average People rating after coming through a difficult period about as well as possible.

Strategy architect Andy Adams, who is now in charge of Mairs & Power Growth MPGFX, had wanted to reduce his role here for a while, but it wasn't until mid-2023 that he likely reached that goal. He initially handed lead manager duties to Al Steinkopf in 2019, but unexpected health issues ultimately forced Steinkopf to return control to Adams in 2021. Meanwhile, Mairs & Power amassed other resources for the team, promoting small-cap analyst Chris Strom to comanager here in January 2021 and hiring veteran Twin Cities investor Mike Marzolf in December 2021. Steinkopf passed away a year later. Adams planned on leading the strategy through 2023, but Marzolf's quick acclimation gave Adams the confidence to hand him the reins in June. Adams and Strom remain onboard as comanagers, and Adams intends to stay involved (albeit in his current reduced capacity) for the foreseeable future.

The firm's investment committee also provided a steadying influence throughout these changes. The 14-member group includes these three managers, other industry veterans, and newer hires intended to address future retirements and build out its capabilities. It also generates the "durable competitive advantage" analyses central to the process here.

Parent ● Above Average | Tony Thomas | 27 Feb 2023

Mairs & Power, founded in 1931, is traditional but pragmatic. It earns an Above Average Parent rating.

Succession planning is rightly a point of pride. Since 2017, chairman and CEO Mark Henneman, CIO Andy Adams, and a handful of portfolio managers have made orderly transitions into their current roles, and in mid-2022 Henneman gave four years' notice for his planned December 2026 retirement. A central investment committee helps ensure consistency of philosophy and execution throughout these changes.

While relatively staid in its structure and investment approach, Mairs & Power isn't stale. Though the investment team has traditionally focused on companies in the Upper Midwest (near the firm's St. Paul headquarters), Henneman and Adams have pressed the firm to look beyond its home region for investment opportunities and diversification. It has long kept its funds competitive on fees, but the firm has recently sought other ways to serve investors' interests, exploring tax-efficient exchange-traded funds with a Minnesota muni-bond ETF launch in 2021 and deploying tools to minimize capital gains distributions, a wise move for a firm with decades-old stakes in some companies. Its new venture capital arm can support local startups and keep an eye on prospects for its public funds. These efforts show that the 92-year-old firm is willing to adapt to changing times and client demands.

Performance | Tony Thomas | 29 Feb 2024

This fund measures itself against a rarely used benchmark, the S&P SmallCap 600 Index. That index's profitability screens could make it tougher to beat over the long term than the less-selective Russell 2000 Index. That said, the fund's record against both—and its small-blend category—is quite competitive. From its August 2011 inception through January 2024, it's 11.8% annualized return edged out the S&P SmallCap 600 Index's 11.7% and more handily beat the Russell 2000 Index's 10.1%. It was also one of the category's best-performing funds.

The fund had a relatively rough 2023, however. Its 11.0% gain was modest versus both indexes and

the typical peer, all of which advanced more than 16%. The main culprit was stock selection in three key areas: financial services, consumer cyclicals, and technology. A few of the fund's regional banks took hits amid the Silicon Valley Bank-related turmoil early in the year and didn't fully recover, including Cullen/Frost Bankers CFR and First Interstate BancSystem FIBK (the managers have sold the latter). The managers also exited the laggard Sleep Number SNBR. The fund's worst performer in 2023 was Clearfield CLFD. The firm, which works on fiber connectivity, entered the portfolio in 2022's fourth quarter before the stock dropped nearly 70% in 2023. The managers are largely sticking with Clearfield—even adding to it as it sold off—on expected benefits from federal spending on rural broadband access.

Price | Tony Thomas | 29 Feb 2024

It's critical to evaluate expenses, as they come directly out of returns. Based on our assessment of the fund's People, Process, and Parent Pillars in the context of these expenses, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Medalist Rating of Silver.

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Analyst-Driven %

The Analyst-Driven % data point displays the weighted percentage of a vehicle's pillar ratings assigned directly or indirectly by analysts. For example, if the People and Parent ratings are assigned directly or indirectly by analysts but the Process rating is assigned algorithmically, the Analyst-Driven % for an actively managed vehicle would disclose that 55% of the pillar weight was assigned by analysts and the Analyst-Driven % for a passively managed vehicle would disclose that 20% of the pillar weight was assigned by analysts.

Morningstar Medalist Rating™

The Morningstar Medalist Rating is the summary expression of Morningstar's forward-looking analysis of

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Morningstar Rating™

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Bonds

Bonds are subject to interest rate risk. As the prevailing level of bond interest rates rise, the value of bonds already held in a portfolio declines. Portfolios that hold bonds are subject to declines and increases in value due to general changes in interest rates. Portfolios that invest in lower-rated debt securities (i.e., "junk bonds") involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility, and increased risk of default. Tax-free municipal bond funds may be subject to state and local taxation and the Alternative Minimum Tax.

Equities

Equities are typically subject to greater fluctuations in market value than other asset classes due to factors such as a company's business performance, investor perceptions, stock market trends and general economic conditions. Stocks of small or mid-sized companies involve additional risks; such companies may have a higher risk of failure, are not as well established as larger blue-chip companies, and have historically experienced a greater degree of market volatility than the overall market average.

International/Emerging Markets Securities Risk

Investing in international securities involves special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Liquidity Risk

Trading may be halted due to market conditions, impacting an investor's ability to sell a security.

Market Price Risk

The market price of securities traded on the secondary

market is subject to the forces of supply and demand and thus independent of the NAV. This can result in the market price trading at a premium or discount to the NAV, which will affect an investor's value.

Market Risk

The market prices of securities can fluctuate as a result of several factors, such as security-specific factors or general investor sentiment. Therefore, investors should be aware of the prospect of market fluctuations and the impact it may have on the market price.

Non-Diversified Strategies

Portfolios that invest a significant percentage of assets in a single issuer involve additional risks, including share price fluctuations, because of the increased concentration of investments.

Sector Strategies

Portfolios that invest exclusively in one sector or industry involve additional risks. The lack of industry diversification subjects the investor to increased industry-specific risks.

Morningstar 2024 Analyst Report: Mairs & Power Small Cap Fund (MSCFX)

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

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 Funds may be lower or higher than the performance quoted. As of the prospectus dated April 20, 2023, Mairs & Power Growth Fund, Mairs & Power Balanced Fund, and Mairs & Power Small Cap Fund have annual expense ratios of 0.63%, 0.69%, and 0.92%, respectively. For the most recent month-end performance figures, visit the Funds' website at www.mairsandpower.com or call Shareholder Services at (800) 304-7404.

Average Annual Total Returns for Periods Ending March 31, 2024

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>	<u>20 Years</u>	<u>Since Inception</u>
Mairs & Power Growth Fund⁽¹⁾	31.90	10.41	13.84	11.15	10.04	11.49
Mairs & Power Balanced Fund⁽¹⁾	16.54	4.75	8.04	7.20	7.55	9.42
Mairs & Power Small Cap Fund⁽¹⁾	15.49	2.64	8.35	7.66	N/A	12.41
S&P 500 Total Return (TR) Index⁽²⁾	29.88	11.49	15.05	12.96	10.15	N/A
Composite Index⁽³⁾	17.99	5.98	9.41	8.58	7.54	N/A
S&P 600 Small Cap Total Return (TR) Index⁽⁴⁾	15.93	2.28	9.15	8.80	N/A	N/A

⁽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 S&P 500 TR Index is an unmanaged index of 500 common stocks that is generally considered representative of the U.S. stock market. 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 into the index. It is not possible to invest directly in an index.

⁽³⁾ The Composite Index reflects an unmanaged portfolio of 60% of the S&P 500 TR Index and 40% of the Bloomberg U.S. Government/Credit Bond Index. It is not possible to invest in an index.

⁽⁴⁾ The S&P SmallCap 600 Total Return Index is an index of small-company stocks managed by Standard & 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 about 3-4% of the total market for equities in the United States. It tracks both the capital gains of the group of stocks over time and assumes that any cash distributions, such as dividends, are reinvested back into the index. It is not possible to invest directly in an index.

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For the 3-, 5-, and 10-year periods, the Small Cap Fund has a rating of 3 stars overall, 3 stars, 3 stars, and 3 stars out of 585, 585, 553, and 384 small blend funds, respectively, as of 03/31/2024.

The Morningstar Rating™ for funds, or “star rating”, is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product’s monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. The Small Cap Fund was rated against the following numbers of small blend funds over the following time periods: 585 funds in the last three years, 553 funds in the last five years, and 384 funds in the last 10 years. Past performance is no guarantee of future results.

The Morningstar Medalist Rating™ is the summary expression of Morningstar’s forward-looking analysis of investment strategies as offered via specific vehicles using a rating scale of Gold, Silver, Bronze, Neutral, and Negative. The Medalist Ratings indicate which investments Morningstar believes are likely to outperform a relevant index or peer group average on a risk-adjusted basis over time. Investment products are evaluated on three key pillars (People, Parent, and Process) which, when coupled with a fee assessment, forms the basis for Morningstar’s conviction in those products’ investment merits and determines the Medalist Rating they’re assigned. Pillar ratings take the form of Low, Below Average, Average, Above Average, and High. Pillars may be evaluated via an analyst’s qualitative assessment (either directly to a vehicle the analyst covers or indirectly when the pillar ratings of a covered vehicle are mapped to a related uncovered vehicle) or using algorithmic techniques. Vehicles are sorted by their expected performance into rating groups defined by their Morningstar Category and their active or passive status. When analysts directly cover a vehicle, they assign the three pillar ratings based on their qualitative assessment, subject to the oversight of the Analyst Rating Committee, and monitor and reevaluate them at least every 14 months. When the vehicles are covered either indirectly by analysts or by algorithm, the ratings are assigned monthly. For more detailed information about these ratings, including their methodology, please go to global.morningstar.com/managerdisclosures/.

The Morningstar Medalist Ratings are not statements of fact, nor are they credit or risk ratings. The Morningstar Medalist Rating (i) should not be used as the sole basis in evaluating an investment product, (ii) involves unknown risks and uncertainties which may cause expectations not to occur or to differ significantly from what was expected, (iii) are not guaranteed to be based on complete or accurate assumptions or models when determined algorithmically, (iv) involve the risk that the return target will not be met due to such things as unforeseen changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, tax rates, exchange rate changes, and/or changes in political and social conditions, and (v) should not be considered an offer or solicitation to buy or sell the investment product. A change in the fundamental factors underlying the Morningstar Medalist Rating can mean that the rating is subsequently no longer accurate.

The stocks mentioned herein represent the following percentages of the total net assets of the Mairs & Power Small Cap Fund as of March 31, 2024: Clearfield 2.40%, Cullen/Frost Bankers 3.28%, Entegris 3.18%, First Interstate BancSystem 0.00%, Silicon Valley Bank 0.00%, Sleep Number 0.00%. 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 offer for a particular security, nor is it intended to be a solicitation for the purchase or sale of any security.

The Russell 2000 Index is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. It is not possible to invest directly in an index.

Sharpe ratio is a measure that indicates the average return minus the risk-free return divided by the standard deviation of return on an investment.

Sortino ratio measures the risk adjusted return of an investment asset, portfolio or strategy by calculating the excess return over the risk-free rate divided by the downside semi-variance.

Alpha is the measure of an active return on an investment, the performance of that investment compared with a suitable market index.