MARCH 31, 2024

Small Cap 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.

Past performance is not a guarantee of future results.

Performance Review

During the first quarter of 2024, the Mairs & Power Small Cap Fund gained 4.87%, outperforming the S&P Small Cap 600 Total Return (TR) benchmark which was up 2.46%, and underperformed the Morningstar peer group which was up 5.69%.

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 0.92%.

We were pleased with performance during the period, and particularly the breadth of sectors participating with positive returns. Stock selection was the driver of relative performance during the quarter, and this was true across nearly every sector. Notably, the leading contribution to both relative outperformance and stock selection was the Financials sector, where there was particular stress and volatility at this time last year. Industrials, Healthcare, and Consumer Staples sectors also contributed to the relative outperformance in the period, while Consumer Discretionary, Technology sectors detracted, as did the absence of Energy holdings.

While we deliberately don't focus on short-term performance, we did note that small cap stocks performed well in March despite a market favoring large cap stocks. It is too early to call this a market broadening, but as we have commented on previously, small cap stocks continue to trade at a significant discount to their larger cap peers, a condition that may be gaining some market attention.

Leading the list of largest contributions to Fund performance during the period was Medpace (MEDP), a contract research organization that continues to buck the weak trends in healthcare venture funding, showing evidence of their alignment with successful partners and development projects. Other positive contributions to relative performance included Minnesota-based Tennant Company (TNC), a maker of automated floor scrubber/sweepers which continues to execute against outsized order backlogs and is showing nice margin improvements. AZEK Company (AZEK), maker of synthetic exterior products, continues to execute well and gain share despite higher interest rates and slow home sales. Also contributing to favorable relative returns were nVent (NVT), a maker of enclosures and thermal management systems which are seeing strong demand for cloud data centers, and Casey's General Stores (CASY), a convenience store operator that is gaining market share in part by leveraging data to drive market share gains and structurally higher margins in their business.

Detracting from relative performance during the period was CVRx (CVRX), a Minnesota-based maker of neuromodulation solutions for patients with cardiovascular diseases, with its stock pulling back a bit after a 75% move higher in the previous quarter. Workiva (WK) detracted from relative performance as the software company's peer group began to discuss slowing close rates on sales and the Workiva's ESG solutions may be feeling some of the recent ESG resistance in the press. MGP Ingredients (MGPI), a seller of branded spirits, distilling solutions, and ingredients solutions, showed some relative weakness as investor concern grew regarding industry inventory levels of aged whiskey in Kentucky. Also detracting from relative performance in the first quarter were Plexus (PLXS) and Littelfuse (LFUS), both technology companies that continue to work through excess inventory in their end markets.

In our conversations with companies, we are encouraged by relatively healthy commentary about the demand environment, and significantly more optimism around the supply chain conditions and inflation pressures on materials, parts, and labor. While the inventory overshoot continues to weigh on new order rates, we are increasingly confident that conditions are improving.

Notable purchases during the quarter included Knife River, (KNF), a North Dakota-based supplier of construction materials and services where we see a healthy runway of growth and margin expansion. We also added to Minnesota-based midmarket investment bank Piper Sandler (PIPR), which is benefiting from years of investing in people and relationships which should continue to aid the company as mergers & acquisitions activity inevitably reopens. We also increased our position in Clearfield (CLFD), a Minnesota provider of fiber optic access and management solutions for rural broadband connectivity, which had been a significant performance detractor during 2023, and is emblematic of our long-term approach to investing. We exited our Catalent (CTLT) position, as the contract development and manufacturing organization (CDMO) company, which provides drug development and manufacturing solutions and services to biotechnology and pharmaceutical companies, announced in February it would be acquired by partner Novo Nordisk for $16.5 billion. We also exited our position in Physicians Realty Trust (DOC), which merged with Healthpeak, as we had concerns about the change in vision for the combined entity, in addition to the company being neither small cap nor in the region. No new names were added to the portfolio during the quarter.

Contrasting this improving view of fundamentals with the current valuations of small cap stocks reveals a mismatch, as small cap stocks are trading at a 32% discount to the broader market as measured by the S&P 500, and at a 14% discount to small cap stock's average as measured by the S&P 600. This is despite the average of analysts' earnings growth estimates for small cap companies outpacing large cap companies for the next several years. We continue to see great opportunities to invest in small companies with above-average growth prospects that are trading at favorable valuations.

Mike C. Marzolf	**Andrew R. Adams**	**Chris D. Strom**
Lead Manager	Co-Manager	Co-Manager
left	*middle*	*right*

Mairs & Power Small Cap Fund Contributors

Year-to-Date (%) 12/31/2023—3/31/2024

LARGEST CONTRIBUTORS TO RELATIVE PERFORMANCE		LARGEST DETRACTORS FROM RELATIVE PERFORMANCE	
Medpace Holdings, Inc.	31.85	CVRx, Inc.	-42.08
Tennant Company	31.52	Workiva Inc. Class A	-16.48
AZEK Co., Inc. Class A	31.29	MGP Ingredients, Inc.	-12.45
nVent Electric PLC	28.03	Plexus Corp.	-12.31
Casey's General Stores, Inc.	16.09	Littelfuse, Inc.	-9.18

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 Small Cap Fund as of March 31, 2024: Amazon.com 0.00%, AZEK Company Inc. 4.21%, Casey's General Stores Inc. 4.20%, Catalent Inc. 0.00%, Clearfield 2.40%, CVRx Inc. 0.55%, Knife River Corp. 2.61%, Littelfuse Inc. 3.47%, Medpace Holdings Inc. 3.49%, Meta Platforms Inc. 0.00%, Microsoft Corp. 0.00%, MGP Ingredients Inc. 2.72%, nVent Electric PLC 3.78%, Physicians Realty Trust 0.00%, Healthpeak Properties 0.00%, Piper Sandler Companies 3.20%, Plexus Corp. 2.82%, Tennant Co. 2.52%, Workiva Inc. 2.16%.

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	3 YR	5 YR	10 YR	SINCE INC
Mairs & Power Small Cap Fund[1]	**15.49**	**2.64**	**8.35**	**7.66**	**12.41**
S&P Small Cap 600 TR Index[2]	15.93	2.28	9.15	8.80	12.13
Russell 2000 TR Index[3]	19.71	-0.10	8.10	7.58	10.75
Morningstar Small Blend[4]	18.85	3.34	8.92	7.13	—

Expense Ratio 0.92% Inception 8/11/2011

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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 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.

[3] Russell 2000 TR Index is a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index.

[4] Morningstar Small Blend Category, as defined by Morningstar are stocks in the bottom 10% of the capitalization of the U.S. equity market which are defined as small cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. Earnings growth is the change in an entity's reported net income over a period of time.

Cash flow is the amount of cash that comes in and goes out of a company.

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 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 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.

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 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 Small Cap 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. The Fund may invest in initial public offerings by small cap companies, which can involve greater risks than investments in companies which are already publicly traded.

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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