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Midwest Fund Mairs & Power Growth Hangs Tough

Mairs & Power Growth favors firms that are headquartered in the upper Midwest, on the theory that proximity gives them an edge.

By NELLIE S. HUANG
Senior Associate Editor
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When the market gets ugly, Mairs & Power Growth (symbol MPGFX, $124) shines. Over the occasionally odious past 12 months (including late 2018 and the recent spring swoon), the fund, a member of the Kiplinger 25, returned 8.8%, beating the 5.9% gain in Standard & Poor's 500- stock index and outdoing its peers (funds that invest in stocks with value and growth characteristics). The fund's stake in health care stocks Abbott Laboratories, Bio-Techne and UnitedHealth Group provided a boost during the period; shares in industrial firms such as Fastenal and Honeywell International helped, too.

The fund's Minnesota-based management shifted slightly in April. Mark Henneman and Andrew Adams switched roles. Adams is now lead manager, and Henneman—who became the firm's chairman and chief executive in January 2018—is now a comanager. "I loved being lead manager of the Growth fund," says Henneman, "but I realized I couldn't do both jobs effectively." Longtime analyst Peter Johnson was also named a comanager.

The trio "row in the same direction," says Henneman, looking for firms with durable competitive advantages trading at a bargain price. They bought more shares of UnitedHealth when the stock sank recently due to talk about a single-payer health care system.

The fund is lumped with large-company stock funds, but the managers invest in firms of all sizes. More than 30% of assets are devoted to small- and midsize-company stocks, double the typical exposure of its peers. And the managers favor firms that are headquartered in the upper Midwest, on the theory that proximity gives them an edge.

At times, these idiosyncrasies have held the fund back. In 2015, for example, the fund underperformed due to its small- and midsize-company stocks. And Growth has held just 10% of its assets in tech shares historically (such shares tend to be pricey, and there aren't many tech firms in the Midwest). That's half the exposure of its typical peer. So in 2017, as tech stocks soared, Growth fell behind. But over the long haul, the fund delivers. Its 15-year 8.7% annualized return matches the S&P 500 and beats 78% of similar funds. ■