

## **Mutual Fund Dividend and Capital Gain Distributions Frequently Asked Questions**

### **Q. What is the difference between a mutual fund dividend and a capital gain distribution?**

**A.** A mutual fund dividend is income earned by the fund from dividends and interest paid by the fund's holdings. A capital gain distribution occurs when the fund sells assets during the year and the gains on those sales exceed the losses.

### **Q. How do mutual funds pay dividends and capital gains to fund shareholders?**

**A.** Shareholders may elect to receive cash or reinvest in additional shares of the fund.

### **Q. What are the tax implications of distributions to shareholders?**

**A.** Mutual fund shareholders in tax-sheltered accounts such as IRAs (Individual Retirement Accounts), 401(k) and 403(b) accounts do not pay taxes on distributions. Shareholders with taxable accounts are required to pay taxes on distributions, whether the distributions are paid out in cash or reinvested in additional shares. These gains are classified as long or short-term gains and are taxed differently. Gains on the sale of investments owned for more than one year are taxed at long-term capital gains tax rates. Gains on the sale of investments owned for one year or less are considered short-term capital gains and are taxed as ordinary income. Interest and dividends are also taxed at ordinary income tax rates which generally are higher than long-term capital gains tax rates.

### **Q. Why do mutual funds pay dividends and distributions?**

**A.** U.S. tax law requires that mutual funds pay substantially all net investment income and net capital gains to their shareholders once a year.

### **Q. If I receive a capital gains distribution, but owned my shares less than a year, how is it taxed?**

**A.** Because the gains relate to the securities owned by the fund, a distribution of long-term gains by the fund is subject to long-term capital gains tax rates, even if you held the shares for less than a year.

### **Q. If I reinvest all my fund distributions, will they still be subject to income taxes?**

**A.** Yes. Distributions of dividends and capital gains in non-retirement accounts are subject to income tax regardless of whether you receive them in cash or reinvest them in additional shares. Distributions in retirement accounts are not taxed.

### **Q. How will I know what dividends and short- and long-term capital gains distributions to report on my tax return?**

**A.** The fund will mail you a Form 1099-DIV in mid-February, identifying all the distributions paid to you during the tax year, with a breakdown between ordinary income dividends and long-term capital gains distributions.

### **Q. How is a fund's share price affected when a distribution is paid?**

**A.** Capital gains and dividend distributions will reduce the fund's net asset value per share (NAV) by the amount of the distribution on the ex-dividend date. For example, if a mutual fund were to pay a distribution of \$1.00 per share and the fund's net asset value (NAV) was \$10.00 per share prior to the distribution, on the ex-dividend date the NAV would be reduced by \$1.00 per share. Market activity may also impact the fund's NAV on the ex-dividend date, so the total change in a fund's NAV may be more or less than the dividend and capital gain distributions.

### **Q. How do a fund's dividend and capital gains distributions affect its total return?**

**A.** Distributions do not impact total return.

### **Q. Have the Mairs & Power Funds made capital gains distributions every year?**

**A.** Generally, the Funds have made capital gains distributions every year. A ten year history of distributions and dividends is available on the Funds' website under each Fund's Distribution History page.

**Q. Do fund managers try to limit capital gain distributions?**

**A.** Mairs & Power has always managed investments with tax efficiency in mind. Our basic long-term investment philosophy helps limit the amount of gains realized in any period. In addition, the firm utilizes available tax-minimizing strategies allowed by law. While taxes are an important consideration, securities will be sold when it is appropriate for investment reasons.

**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](http://www.mairsandpower.com). Read the prospectus and summary prospectuses carefully before investing.**

All investments have risks. The Funds are designed for long-term investors. Equity investments are subject to market fluctuations and the Funds' share prices 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. The Small Cap Fund may invest in initial public offerings by small cap companies, which can involve greater risks than investments in companies that are already publicly traded.

Mairs & Power, Inc. and ALPS Distributors, Inc. do not provide legal, tax or accounting advice to their clients. All investors are encouraged to consult with their legal, tax or accounting consultants.

ALPS Distributors, Inc. is the Distributor for the Mairs & Power Funds.

MNP000991 12/19/18