



MAIRS & POWER

SMALL CAP *fund*

Third Quarter Results

September 30, 2018

FOCUSED INVESTING FOR THE LONG-TERM

SMALL CAP *fund* (MSCFX)

Third Quarter Market Overview - September 30, 2018

Economic fundamentals remain strong with second quarter gross domestic product (GDP) growth above 4% and the third quarter come in at 3.5%. Both business and consumer confidence remain near all-time highs and solid job growth has pushed the unemployment rate down to a historically low 3.7%.

Even though the market recently backed off of its all-time highs, stock market fundamentals remain strong as well. Annual revenue growth for S&P 500 companies has continued to accelerate, likely reaching 9% in the third quarter. Year-over-year earnings growth was 25% for the first two quarters of 2018 and is estimated to stay in the high teens in the third quarter. The stock market in the U.S. has transitioned from a focus on a handful of fast growing technology stocks to broader market participation. With healthcare and industrials leading the way, every market sector in the third quarter had a positive return, with the exception of energy stocks.

For the third quarter, the S&P 500 Total Return (TR) was 7.71% and was 10.56% for the first nine months of the year. The Dow

Jones Industrial Average TR was 9.63% and 8.83%, respectively and the Bloomberg Barclays U.S. Government/Credit Bond Index return was 0.06% and -1.85% over the same periods.

Please note that we expect to report our estimate of capital gains for the year in mid-November for all three Funds. Please check our website for these estimates, www.mairsandpower.com.

Past Performance is not a guarantee of future results.

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. It is not possible to invest directly in an index.

Bloomberg Barclays U.S. 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. It is not possible to invest directly in an index.

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.

Future Outlook

While economic and market fundamentals are strong, we remain cautious in our outlook for the near-term. We calculate that about half of the growth in earnings this year is due to lower corporate tax rates. We believe this tax benefit tail wind will disappear in 2019. Wage growth has been gradually accelerating, putting pressure on corporate profits. Inflation is slowly moving higher and now stands above the Federal Reserve (Fed) target rate of 2%. This is an important factor behind the Fed's plans to continue moving interest rates higher. We have seen three hikes so far this year, expect a fourth before year-end and at least two more next year. Higher interest rates put equity valuations at risk and disproportionately impact small and mid-sized companies, which are the primary drivers of job growth.

We also watch the housing and auto sectors, important drivers in our consumer-led economy. As home prices and mortgage rates continue to move higher, the housing affordability index has fallen significantly. Thirty-year fixed rates are now above 4.5% and sales of existing homes have declined over the past six months. Auto sales are also affected by interest rates and have been in decline for the past year. The continuations of these two trends could single pressure on economic growth.

We are seeing transitions on the international front as well. The period of synchronized global growth we had seen for several quarters has stalled with emerging markets running into trouble. High debt levels and declining currencies, exacerbated by uncertainties caused by U.S. tariffs, have pushed several emerging markets into bear market territory. Interest rates are rising in most developed economies and the era of negative rates appears to have come to an end. Finally, while we think we are seeing more of a trade "tiff," tariff hikes are a potential threat to industrial sector stocks if a real trade war does break out.

The bull market and economic expansion are setting longevity records as they approach the ten year mark. While we are not calling a turn here, we may be in the autumn of the current cycle.

Small Cap Fund Performance Review

The Small Cap Fund is up 12.20% for the first nine months of the year and, though it gained ground in Q3, is thus far lagging its index while outperforming its peer group. The S&P Small Cap 600 Total Return (TR) Index is up 14.54% in the first nine months of 2018 and the peer group as measured by the Morningstar Small Blend Category is up 8.24%. In the third quarter the Fund outperformed both its index and peer group; up 6.76% compared to up 4.71% for the index and up 2.79% for the peer group.

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 lower or higher than the performance quoted. For the most recent month-end performance figures visit www.mairsandpower.com or call Shareholder Services at (800)304-7404. Expense Ratio 1.04%.

Outperformance of the Fund relative to its index for the third quarter has been driven primarily by stock selection, but sector allocation also played a role. An overweight position in the industrial sector and a small underweight position in the energy sector both added slightly to relative performance.

The positive impact of stock selection was aided by companies like Bio-Techne Corp (TECH) and Workiva Inc. (WK) in both the third quarter and year-to-date. Bio-Techne has done an admirable job of leveraging its strengths in providing biologic tools to life science researchers by incorporating its massive catalog of proteins on several new more efficient research platforms. Increased interest in biologic research by both the public and private sectors has also provided a nice tailwind for the company.

Workiva, an Iowa-based software as a service (SaaS) company, has created a platform that streamlines complex financial and regulatory reporting processes primarily for corporate clients. Their unique and efficient book of record for non-structured data helps their customers satisfy compliance requirements. The company started by helping publicly traded companies meet new SEC reporting requirements for electronically tagging data in a specific format called XBRL (eXtensible Business Reporting Language). The company has since expanded into other areas like Sarbanes Oxley compliance reporting and corporate audit reporting. The economics of the company's business model are very attractive as they scale it up to take advantage of new market opportunities.

Apogee Enterprises Inc. (APOG) is one stock that has hindered performance for the Fund in both the quarter and the first nine months of the year. Twin Cities-based Apogee is focused on the commercial glass coatings market. It had done a good job of improving operational efficiency to better compete in the smaller project market, but has stumbled with a recent acquisition. Once unprofitable projects that came with the acquisition roll off and the company is able to fill open operational positions, we should see a recovery in their results.

Stocks added in the quarter include Digi International Inc. (DGII), FireEye (FEYE), and Carrizo Oil & Gas Inc. (CRZO). Digi is a local company that is going through a significant transformation under the new management team. We are excited to see them grow their internet connected temperature monitoring business, as it seems there are a number of markets, such as the food industry, that would benefit from more automated monitoring. FireEye, a silicon valley-based security company, has earned a phenomenal reputation in the security industry. Their Mandiant division is the first responder to many of the largest data breaches. The company's goal is to leverage that expertise into their other security products for corporations and government entities. Finally, Carrizo, based in Texas, owns a substantial amount of acreage in the Texas Permian basin. As oil prices have remained elevated, the economics of the region have become quite attractive. Once bottlenecks in transporting the oil from that region are resolved, we believe the company should see even better financial returns.

Our outlook for small cap stocks is similar to our cautious outlook for the broader stock market, but perhaps a touch less so. Small cap valuations have moved down recently and are currently in line with those of larger stocks on some measures. Historically small stocks have traded at a premium due to their faster growth rates.

So, on a relative basis valuations are attractive. Also, the strength of the dollar should not be as much of a headwind for smaller companies as more of their business is domestically based. However, it is difficult to get overly excited about the group as potential inflationary pressure will likely limit upside for smaller cap stocks. This is because small cap stocks are typically considered longer duration assets, not paying out significant dividends in the near-term.

On the final day of the quarter, the Small Cap Fund was re-opened to new investors. Recall in the third quarter of 2016 we had decided to close the Fund to new investors to slow cash flow to a more manageable level while maintaining capacity for existing shareholders to add to their positions in both the Small Cap Fund and other investment vehicles at Mairs & Power. After analyzing the availability of attractive small cap companies and the capacity of Mairs & Power's existing products, the decision was made to re-open the Small Cap Fund to all investors. If re-opening the Fund results in an increase in assets, we could also see a decline in the expense ratio, benefiting shareholders, as the Fund's fixed expenses would be leveraged over a larger investment pool. For more detail regarding re-opening the Fund please visit www.mairsandpower.com.

Andrew R. Adams
Lead Manager

Allen D. Steinkopf
Co-Manager

Mairs & Power Small Cap Fund Performers

TOP RELATIVE PERFORMERS

THIRD QUARTER (6/30/18 - 9/30/18)		YEAR-TO-DATE (12/31/17 - 9/30/18)	
Bio-Techne Corp.	33.49%	Bio-Techne Corp.	43.98%
Donaldson Company, Inc.	24.93%	IntriCon Corp.	169.3%
Workiva, Inc.	57.17%	Workiva, Inc.	70.04%
Marcus Corporation	25.17%	Premier Inc.	42.29%
Premier Inc.	21.13%	Marcus Corporation	41.36%

WEAK RELATIVE PERFORMERS

THIRD QUARTER (6/30/18 - 9/30/18)		YEAR-TO-DATE (12/31/17 - 9/30/18)	
Apogee Enterprises, Inc.	-18.66%	Oshkosh Corp.	-35.41%
NVE Corp.	-16.95%	Apogee Enterprises, Inc.	-23.25%
Hub Group, Inc.	-13.15%	Tile Shop Holdings, Inc.	-38.39%
Tennant Company	-8.31%	CoreSite Realty Corporation	-14.17%
Associated Banc-Corp	-8.95%	Physicians Realty Trust	-16.72%

Performance shown is relative to the S&P SmallCap 600 TR Index as of September 30, 2018. Relative return is the difference between the absolute return and the performance of the market, in which the position is held. Relative contribution is used for ranking, which considers average daily weightings for each holding. 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 September 30, 2018: Apogee Enterprises, Inc. 2.92%, Associated Banc-Corp 3.22%, Bio-Techne Corp. 3.81%, Carrizo Oil & Gas Inc. 0.91%, CoreSite Realty Corporation 3.31%, Digi International Inc. 0.25%, Donaldson Company, Inc. 3.76%, FireEye 0.52%, Hub Group, Inc. 2.06%, IntriCon Corp. 1.09%, Marcus Corporation 2.57%, NVE Corp. 1.66%, Oshkosh Corp. 2.67%, Physicians Realty Trust 2.48%, Premier Inc. 2.74%, Tennant Company 2.88%, Tile Shop Holdings, Inc. 1.44%, Workiva, Inc. 1.54%.

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 Annual Total Returns (%)

As of 9/30/18	QTR ⁽¹⁾	1 Year	3 Year	5 Year	Since Inception ⁽²⁾
Mairs & Power Small Cap Fund ⁽³⁾	6.76	13.85	17.21	11.47	17.58
S&P SmallCap 600 TR Index ⁽⁴⁾	4.71	19.08	19.41	13.32	17.05
Morningstar Small Blend Category ⁽⁵⁾	2.79	12.14	14.73	9.71	N/A

Expense ratio: 1.04%

Inception: 8/11/2011

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⁽¹⁾ Periods less than one year are not annualized.

⁽²⁾ Since inception performance is as of August 11, 2011, which was the offering date of the Small Cap Fund.

⁽³⁾ 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.

⁽⁴⁾ The S&P SmallCap 600 Total Return (TR) 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 about 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 into the index. It is not possible to invest directly in an index.

⁽⁵⁾ Morningstar Small Blend Category, as defined by Morningstar, are stocks in the bottom 10% of the capitalization of the U.S. equity market. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. It is not possible to invest directly in Small Blend Category.

All investments have risks. Mairs & Power Small Cap Fund is designed for long-term investors.

The Fund's share price 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 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.

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

MAIRS & POWER

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