MAIRS & POWER

SMALL CAP *fund*

Fourth Quarter Results

December 31, 2018

FOCUSED INVESTING FOR THE LONG-TERM

MAIRS & POWER

SMALL CAP *fund* *(MSCFX)*

Fourth Quarter Market Overview - December 31, 2018

2018 was like a tale of two years with first and second halves presenting very different markets and investment results. In the first half of the year the market continued its historic decade-long bull run, remaining focused on a narrow group of large cap growth stocks primarily in the Technology sector while value, Industrials and Health Care stocks remained out of favor. But when the market turned down as Technology reversed course, volatility returned with a vengeance and investor confidence was severely tested. There was no Santa Claus rally this year as the fourth quarter of 2018 posted the worst December in decades.

For the fourth quarter, the S&P 500 Total Return (TR) Index fell 13.52%, pulling it down 4.38% for the full year. Similarly, the Dow Jones Industrial Average TR was down 11.31% and 3.48% and the Bloomberg Barclays U.S. Government/Credit Bond Index return was up 1.46% and down 0.42% over the same periods.

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

As we turn the page from 2018 to 2019, the questions looming in investors' minds are: "Is this the start of a bear market or is it merely a correction, an interruption but not an end, to the longest bull market in history?" "Is this economic expansion nearing an end or can economic growth continue into 2019 and beyond?" We don't predict market swings and we cannot predict when a recession will occur. However, we remain cautious for 2019 as we are seeing a number of yellow flags signaling an increasing risk of a recession. In addition, the continuing trade tiff, a year-end government shutdown and overall political uncertainty are unnerving the markets and shaking investor confidence.

Our first area of concern is interest rates. In December, The Federal Reserve (Fed) raised the Fed funds rate for the fourth time this year and the ninth time since beginning a normalization process that began three years ago. They have signaled the possibility of two more hikes in 2019, but are watching the data closely and have indicated a willingness to change course as appropriate. It takes time for the broader economy to feel the effect of rising interest rates and we are now starting to see the impact. Small and mid-sized businesses, the primary engines of job creation, are less confident in the outlook. Mortgage rates and consumer loan rates have risen. As a result, construction activity, new home sales and auto sales have declined slightly versus the past year.

Our second area of concern is growth. Where last year saw synchronized global growth, now we are seeing a synchronized global slowdown. GDP (gross domestic product) growth in the U.S. is projected between 1.75% and 2% for 2019, down from 3%+ in 2018[1]. The ISM-Manufacturing Index, while still in expansion mode, has turned down. Two measures that track truck tonnage and shipments, considered reliable barometers of the U.S. economy, have fallen sharply in the past three months and are now projecting a decline in activity. Both Europe and China are experiencing slower growth and some emerging economies are struggling.

Finally, we are watching both the level and quality of corporate profits. S&P 500 earnings per share grew more than 20% in 2018, but we are now projecting it to grow 8% in 2019[1]. Federal tax cuts benefited earnings growth in 2018 but that tailwind disappears this year. In addition, we are seeing signs of inflation in wages, transportation and other input costs. The impact of higher tariffs is becoming evident as manufacturers see materials costs rising, especially for steel. Some report being able to pass along price increases, but pricing-driven earnings growth is generally less valuable to the market than growth from selling more units. Valuation measures such as dividend yield, price-to-earnings and price-to-cash flows have declined and are now at levels inline with long-term averages. However, equity valuations remain vulnerable in a rising rate environment and could have room for further contraction, particularly if earnings growth disappoints.

[1] Source FactShet Research Systems Inc.

Dividend yield is the ratio of a company's annual dividend compared to its share price.

Price-to-earnings is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

Price-to-cash flow ratio is a stock valuation indicator that measures the value of a stock's price to its cash flow per share.

Earnings per share is the portion of a company's profit allocated to each share of common stock.

Institute for Supply Management (ISM)-Manufacturing Index monitors employment, production, inventories, new orders and supplier deliveries and is based on surveys of more than 300 manufacturing firms by the ISM .

Small Cap Fund Performance Review

The market sold off sharply in the fourth quarter of the year and small cap stocks were no exception. Nevertheless, the Mairs & Power Small Cap Fund outperformed both the index and peer group. The Fund finished the quarter down 17.03% while the S&P 600 Total Return Index and the Morningstar Small Blend Category were down 20.10% and 19.32% respectively. For the year the Fund finished down 6.91%, also ahead of the index and peer group which were down 8.48% and 12.66% respectively.

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%.

Sector allocation played a small role in relative performance for the year with Energy being the only sector of note, declining over 40% in 2018 as the worst performing sector in small cap. The Fund's significantly underweight position in the sector meaningfully contributed to relative outperformance for the year. In fact, for most of 2018, the Fund held just one energy stock.

Stock selection was the primary driver of relative outperformance in 2018. Among the several strong contributors to relative performance in 2018 were Marcus Corp (MCS) and Workiva Inc. (WK). Marcus, a Milwaukee-based company up 55.46% for the year, primarily owns and operates movie theaters in the Midwest but also owns and manages a number of hotels as well. Management has made a big push over the last several years to invest in its movie theaters with amenities like power reclining seats, in-theater beverage and food service, and restaurants and bars in some theater lobbies, all of which have been well-received by consumers. In our opinion, Marcus is in a strong competitive position as it owns the bulk of its properties and therefore has stronger cash flow than peers who have to make lease payments on the majority of their properties. This gives Marcus the ability to continue to invest aggressively in its theaters while its competitors cannot, further widening its advantage.

Workiva, an Ames Iowa-based company, was up 76.19% for the year. Workiva, a software as a service (SaaS) company, has created a platform that streamlines complex financial and regulatory reporting processes primarily for corporate clients. As we mentioned in the third quarter letter, their unique and efficient book of record for non-structured data helps their customers satisfy compliance requirements. As they scale it up to take advantage of new market opportunities, the economics of the company's business model become very attractive.

Not surprisingly, some of our most cyclical holdings hindered performance for the year with Apogee Enterprises Inc. (APOG) and Oshkosh Corp (OSK) the worst contributors. As we've written in past letters, we believe both companies occupy extremely strong competitive positions longer-term, and we look to take advantage of downturns in their business cycles as an opportunity to add to our positions. We are confident that the managements of both companies are making the right investments to emerge from any downturn in their end markets with stronger competitive positions and improved market share.

In the fourth quarter we added MGP Ingredients Inc. (MGPI) to the portfolio. MGP, headquartered in Kansas, is primarily a producer of distilled spirits with a significant portion of its operations located in Indiana. The company, which holds a significant share in American and rye whiskeys, is benefiting from the shift in consumer tastes toward spirits away from other alcoholic beverages as well as a preference for smaller "micro" producers similar to the trend in the beer industry. MGP's stock has come under pressure following poor execution in rolling out a new plant management system and over concerns of increased industry capacity. We believe they will be able to manage through these issues and are looking forward to their rollout of an aged product.

We see some positive signs for small cap stocks going forward. With the significant market sell off in the fourth quarter, small cap valuations are now quite attractive. In fact on a price-to-earnings basis, small cap stocks are trading well below their ten year historical average and on a relative basis to large cap stocks they are no longer trading at a premium. This is significant as small cap stocks typically trade at a significant premium to larger stocks. With the dollar showing signs of strength again, the macro environment may become a little more difficult for larger multi-national stocks, potentially making small caps a relatively better option for equity investors.

Andrew R. Adams
Lead Manager

Allen D. Steinkopf
Co-Manager

Mairs & Power Small Cap Fund Performers

TOP RELATIVE PERFORMERS

FOURTH QUARTER (9/30/18 - 12/31/18)		YEAR-TO-DATE (12/31/17 - 12/31/18)	
Black Hills Corp.	29.04%	Marcus Corporation	55.46%
United Fire Group, Inc.	29.96%	Workiva, Inc.	76.19%
Casey's General Stores, Inc.	19.58%	United Fire Group, Inc.	39.53%
EMC Insurance Group Inc.	50.19%	Gentherm Inc.	34.40%
Glacier Bancorp, Inc.	13.15%	Premier Inc.	36.44%

WEAK RELATIVE PERFORMERS

FOURTH QUARTER (9/30/18 - 12/31/18)		YEAR-TO-DATE (12/31/17 - 12/31/18)	
Oasis Petroleum Inc.	-40.90%	Apogee Enterprises, Inc.	-25.29%
Carrizo Oil & Gas, Inc.	-35.10%	Oshkosh Corp.	-23.14%
Catalent Inc.	-11.45%	Tennant Company	-18.91%
IntriCon Corp.	-32.96%	Tile Shop Holdings, Inc.	-32.68%
Bio-Techne Corp.	-8.86%	Catalent Inc.	-15.62%

Performance shown is relative to the S&P SmallCap 600 TR Index as of December 31, 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 December 31, 2018: Apogee Enterprises, Inc. 3.07%, Bio-Techne Corp. 3.32%, Black Hills Corp. 2.98%, Carrizo Oil & Gas Inc. 1.16%, Casey's General Stores Inc. 2.91%, Catalent Inc. 2.61%, EMC Insurance Group Inc. 1.11%, Gentherm Inc. 2.43%, Glacier Bancorp Inc. 3.11%, IntriCon Corp. 1.04%, Marcus Corporation 2.23%, MGP Ingredients Inc. 0.69%, Oasis Petroleum Inc. 1.06%, Oshkosh Corp. 3.03%, Premier Inc. 2.67%, Tennant Company 2.77%, Tile Shop Holdings, Inc. 1.49%, United Fire Group Inc. 2.40%, Workiva, Inc. 1.72%.

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 12/31/18	1 Year	3 Year	5 Year	Since Inception [1]
Mairs & Power Small Cap Fund [2]	-6.91	8.44	5.35	14.02
S&P SmallCap 600 TR Index [3]	-8.48	9.46	6.34	12.94
Morningstar Small Blend Category [4]	-12.66	5.94	3.23	10.28

Expense ratio: 1.04% **Inception: 8/11/2011**

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

(2) 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.

(3) 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.

(4) 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.

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