



MAIRS & POWER

SMALL CAP *fund*

Fourth Quarter Results

December 31, 2017

The Mairs & Power Small Cap Fund is closed to new investors.

FOCUSED INVESTING FOR THE LONG-TERM

SMALL CAP *fund* (MSCFX)

Fourth Quarter Market Overview - December 31, 2017

The market started 2017 on a strong positive trend, welcoming the new administration and a Republican Congress in anticipation of investor friendly legislation and de-regulation. The bull market continued its run throughout the year, setting multiple record highs and, as the year came to a close, long-anticipated tax cuts were signed into law delivering a strong year for absolute returns even in conservative portfolios, particularly on the equity side.

For the fourth quarter and full year the S&P 500 Total Return (TR) was 6.64% and 21.83%, and the Dow Jones Industrial Average TR was 10.96% and 28.11%, respectively. Our other key benchmark, the Bloomberg Barclays U.S. Government/Credit Bond Index return was 0.49% and 4.00% for each period.

The market continued to favor large cap technology stocks in 2017, and the Information Technology sector is now both the largest component and the most significant factor in performance of the S&P 500 Index. Driven by a small number of names such as Facebook, Alphabet (Google), Netflix, Microsoft and Apple, the tech sector was up nearly 40% for the year, almost double the overall market.

There is much good news on a macroeconomic level. We are in an environment of widespread, synchronized economic growth around the world, yet inflation remains in check. The U.S. economy extended its most prolonged period of economic growth in recent history, and we ended the year with the third consecutive quarter of better than 3% annualized GDP (gross domestic product) growth. Consumer confidence is at a 17-year high while unemployment is at 17-year low, and small business confidence, the highest in more than a decade, is approaching historic all-time highs.

One cautionary signal is found in the fixed income market. The Federal Reserve (Fed) once again hiked the federal funds rate by 25 basis points in December, and has signaled a continued slow increase in short-term rates in 2018 with at least three rate hikes expected of an estimated 25 basis points each time. As short-term yields rose, the yields on longer maturity securities held fairly constant. While a flattening of the yield curve, which we've seen for several quarters now, often presages a slowdown in the economy. But the interest rate environment is anything but typical right now with more than \$9 trillion in foreign government debt instruments issued globally currently trading at negative yields.

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 (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.

Basis point is a unit of measure where one basis point is equal to 1/100th of 1% or 0.01%, or 0.0001.

Future Outlook

The impact of the tax cuts on the economy will be watched closely in the coming year. Prior to the recent move, Congress had enacted seven major tax cuts since the 1960s. The average unemployment rate at the initiation of those earlier tax cuts was seven percent. With an unemployment rate of only four percent now, the current tax cuts provide a fiscal stimulus onto a fully utilized economy, an action which some have likened to “pouring gasoline on a fire.”

The corporate tax cut will provide a one-time boost to earnings, especially for domestically oriented companies such as retailers, banks and smaller cap stocks that have little or no international exposure. Large cap companies with significant overseas operations may not see as large a benefit. Companies are likely to use the tax cuts for wage increases, dividend hikes, share buybacks and capital spending. The combination of wage hikes and lower personal taxes could provide a kick to consumer spending which will be positive for the economy. Wage hikes may create inflationary pressures, however, if employers are successful in pushing price hikes to offset higher labor costs. If they are not successful, higher labor costs could begin to pressure profit margins. Either scenario would create a headwind for the market.

For the first time in our memory, the market posted gains every month of 2017. In the ninth year of the second longest bull market in history, investor confidence remains at very high levels. Valuations remain near the high end of historical trading ranges, so the market is not cheap. With corporate earnings up ten percent but the market up twice that in 2017, we believe the anticipated benefits from tax cuts are already substantially priced into stocks. As a result, our outlook is for a flat market in 2018. But even a flat market can provide plenty of opportunities for patient investors with a clear plan and a strategic approach to investing.

Small Cap Fund Performance Review

The Mairs & Power Small Cap Fund underperformed the peer group and the index for the year. The Fund returned 7.64% compared to a return of 13.23% for the S&P 600 Small Cap Index and a return of 12.28% for the Morningstar peer group. For the quarter the Fund was up 1.47% versus 3.96% for the index and 3.54% for the Morningstar 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 1.05%.

While stock selection drove underperformance for the quarter and the year, sector selection had a slightly positive impact on relative performance in both periods due primarily to the Fund's underweight position in the Energy sector, the worst performing sector in the S&P 600 Index for 2017.

Although we experienced positive absolute returns, 2017 was a disappointing year for the Fund on a relative basis. Underperformance was driven in large part by poor execution at a number of the companies we hold but we believe a number of the issues impacting our holdings are short-term executional missteps that can be rectified fairly quickly. Three of the biggest detractors from performance for the year, Apogee Enterprises (APOG), Hawkins (HWKN), and Tile Shop (TTS), illustrate the point.

Apogee, based in Minneapolis, is one of the largest holdings in the Fund and had been a positive contributor to performance up until the last quarter of the year when the company significantly lowered revenue and earnings guidance. The commercial window coating company had been taking share in the mid-size commercial market as it improved the efficiency and delivery times of its operations. But competitors in that market, clearly tired of losing share, cut prices, which had an impact. Part of the reason we like Apogee is its price discipline. Rather than chasing the less profitable business, the company walked away. At the same time, it has the scale to continue to invest in operating efficiencies and its competitive advantage in that market

Mairs & Power Small Cap Fund Performers

TOP PERFORMERS

FOURTH QUARTER (9/30/17 - 12/31/17)		YEAR-TO-DATE (12/31/16 - 12/31/17)	
Cray Inc.	20.46%	Graco Inc.	52.38%
Proto Labs, Inc.	24.31%	Catalent Inc.	39.48%
Snap-On Inc.	13.62%	Proto Labs, Inc.	87.35%
Oshkosh Corp.	6.47%	Oshkosh Corp.	29.13%
Tennant Company	6.13%	Badger Meter, Inc.	17.67%

WEAK PERFORMERS

FOURTH QUARTER (9/30/17 - 12/31/17)		YEAR-TO-DATE (12/31/16 - 12/31/17)	
Gentherm Inc.	-18.49%	Tile Shop Holdings, Inc.	-63.43%
Tile Shop Holdings, Inc.	-27.94%	Apogee Enterprises, Inc.	-26.94%
Black Hills Corp.	-15.98%	Hawkins, Inc.	-46.65%
Premier Inc. Class A	-14.34%	Great Western Bancorp, Inc.	-20.14%
Apogee Enterprises, Inc.	-8.92%	Gentherm Inc.	-19.44%

Performance shown is relative to the S&P 600 TR Index as of December 31, 2017. 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.

will likely continue to grow. On a more positive note, the weaker dollar is making Apogee more competitive relative to foreign manufacturers for large scale projects. Also, the company's end markets appear to remain strong with continued improvements in the Architectural Billing Index, a leading economic indicator of demand.

Hawkins, a small specialty chemical company headquartered in St. Paul, and another fairly large holding for the Fund, also weighed significantly on performance. The company's traditional specialty chemical business saw pricing pressure as larger competitors dropped prices to gain share and Hawkins was forced to follow. In addition, the company has had difficulty gaining share in its newly acquired nutritional business despite significant investment in manufacturing and its salesforce. We believe it is only a matter of time until these investments bear fruit in this faster growing market. Finally, the company's water treatment division continues to perform well, but has temporarily been impacted by higher raw material prices. As they pass those price increases on to customers, results should improve.

Tile Shop, a flooring retailer based in Plymouth, Minnesota, experienced a change in executive management in the fourth quarter as it faced significant operational issues in 2017, centered primarily around its inventory management practices. The company's prior CEO had focused on inventory efficiency by significantly reducing the variety of products and the amount of inventory on hand. This led to significant stock-outs in the second half of the year, hurting sales and margins. The new interim CEO has shifted the company's strategy to focus on smoothing product updating over the course of the year and making sure that store shelves are well stocked. After we toured a number of stores, we believe that this new strategy is likely to pay off for the company in the future.

We have stuck with most of our holdings and in many cases added to positions on what we feel have been good opportunities to take advantage of short-term volatility. Only time will tell if our assessments are correct, but as we look to 2018, we are optimistic. As small cap stocks have significantly lagged large caps in 2017, relative valuations in small cap stocks continue to be quite reasonable in our opinion. We also anticipate that smaller companies will see a bigger earnings benefit from lower U.S. corporate tax rates than larger companies, which have larger international operations.

As always, we will continue to seek out and invest in companies that have strong competitive positions in their industries enabling them to outperform over the long-term. We made initial investments in two Twin Cities'-based companies during the fourth quarter that we think exhibit the qualities we look for. IntriCon (IIN) is a small manufacturer of micro technology aiming to disrupt the hearing aid industry, as well as participating in automated glucose monitoring systems from Medtronic. We have also made an investment in Calyxt Inc. (CLXT), a company pioneering gene editing technology to produce agricultural products with unique and valuable characteristics.

Andrew R. Adams Allen D. Steinkopf
Lead Manager Co-Manager

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.

Architectural Billing Index is an economic indicator of demand for commercial and industrial building activity.

The stocks mentioned herein represent the following percentages of the total net assets of the Mairs & Power Small Cap Fund as of December 31, 2017: Alphabet Inc 0.00%, Apogee Enterprises, Inc. 3.20%, Apple Inc. 0.00%, Badger Meter, Inc. 3.03%, Black Hills Corp. 2.48%, Calyxt Inc. 0.29%, Cray Inc. 2.08%, CyberOptics Corp. 0.77%, Facebook 0.00%, Gentherm Inc. 2.57%, Graco, Inc. 2.56%, Hawkins, Inc. 1.31%, IntriCon Corp. Com 0.30%, Microsoft 0.00%, Netflix 0.00%, Oasis Petroleum, Inc. 0.79%, Oshkosh Corp. 3.62%, Premier Inc. Class A 2.39%, Proto Labs, Inc. 1.49%, Snap-on Corp. 2.37%, Tennant Company 3.33%, Tile Shop Holdings, Inc. 1.61%.

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 12/31/17	QTR ⁽¹⁾	1 Year	3 Year	5 Year	Since Inception ⁽²⁾
Mairs & Power Small Cap Fund ⁽³⁾	1.47	7.64	9.30	14.10	17.69
S&P 600 Index TR ⁽⁴⁾	3.96	13.23	12.00	15.99	16.72
Morningstar Small Blend Category ⁽⁵⁾	3.54	12.28	8.71	12.99	N/A

Expense ratio: 1.05%

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 600 Small Cap 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 are defined as smallcap. 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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