

Mairs & Power Balanced Inv MAPOX

This hardy fund prefers to stay close to home.

Morningstar's Take MAPOX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Silver

Morningstar Pillars

Process	+	Positive
Performance	+	Positive
People	+	Positive
Parent	+	Positive
Price	+	Positive

Role In Portfolio

Core

Fund Performance MAPOX

Year	Total Return (%)	+/- Category
YTD	-3.59	-2.33
2017	11.90	-1.31
2016	11.42	4.08
2015	-2.54	-0.61
2014	8.04	1.83

Data through 3-31-18

3-27-18 | by Tony Thomas

A conservative, quality-focused process that has produced competitive long-term returns earns Mairs & Power Balanced a Morningstar Analyst Rating of Silver.

Managers Ron Kaliebe and Kevin Earley invest for the long term and keep turnover low. They typically maintain a 60%/40% split between stocks and bonds, though they have tilted more toward equities in recent years as they look for better returns. Most equity holdings pay decent dividends. The managers embrace their firm's preference for companies based near its St. Paul, Minnesota headquarters. Their close ties with company management, employees, and the business community in their region gives their fundamental analysis an edge. Almost half of the fund's equity assets are in companies based in the Upper Midwest, but many have diverse, global operations, such as 3M MMM and Ecolab ECL.

The fund's fixed-income sleeve is nothing fancy, but that's how Kaliebe likes it. He has shifted to investment-grade corporate bonds in recent years, seeking higher yields in a low-rate environment. He and his team dig into issuers' fundamentals just as the firm's equity investors do with stocks and look for smaller issuers or companies that can back debt with substantial tangible assets, such as airlines that need to finance their fleets. They may dip below investment-grade occasionally, but only if their research gives them confidence in a company's ability to pay.

This straightforward, prudent approach has generated a solid risk/reward profile with respectable long-term returns and muted risk. Its quality and regional biases largely kept the fund out of 2017's large-cap tech rally, and it trailed most of its moderate-allocation (50%-70% equity) Morningstar Category peers as a result. But the strategy works over the long run. The fund's 7.4% annualized total return from Kaliebe's January 2006 start through February 2018 topped the category average by more than 1.9 percentage points and beat the Morningstar Moderate Target Risk category index by nearly 90 basis points. This fund is a sensible pick for long-term investors.

Process Pillar + Positive | Tony Thomas 03/27/2018

The managers' principled approach to long-term investing earns a Positive Process rating. As is typical for the firm, portfolio turnover is low. Managers Ron Kaliebe and Kevin Earley prefer dividend-paying businesses that can consistently generate above-average returns on equity. They also favor companies based near their St. Paul office, and nearly half of the equity assets are in companies headquartered in the Upper Midwest. The equity sleeve is heavy in industrials and healthcare, reflecting Mairs & Power's location in a state (Minnesota) known for agriculture, manufacturing, and the Mayo Clinic.

The team's fixed-income approach is simple and conservative. Although Kaliebe prefers to hold bonds to maturity, he has been paring down durations and moving toward higher-yielding corporate bonds because rates have been low. The team evaluates creditworthiness by examining issuers' fundamentals. They favor investment-grade bonds but will dip below-grade if the issuer looks right. They like smaller issuers or debt backed by steady cash flows or tangible assets, such as bonds issued by insurance companies or airlines.

Kaliebe and Earley are members of Mairs & Power's 12-person investment committee, which vets current and prospective holdings' competitive advantages and fundamentals. This collaborative process aids decision-making and builds a pool of prospective investments.

Managers Ron Kaliebe and Kevin Earley run a moderate-allocation portfolio that targets a 60%/40% mix of stocks and bonds but has leaned more toward equities in recent years because of low fixed-income rates. The fund has 65% of its assets in stocks, a bit above its typical category peer and with a stronger tilt toward domestic firms. The equity sleeve usually has 45-60 names, and most pay a dividend. The firm's regional bias is evident, with the top holdings dominated by Minnesota-based companies such as US Bancorp USB and Medtronic MDT. Yet the bias isn't restrictive; for example, the managers added Alphabet GOOG in 2016 after their analysis showed it had a reasonable valuation and an expanding competitive advantage.

The managers prefer holding fixed-income securities to maturity but are willing to swap for better opportunities. The fund's bond holdings are smaller and more numerous than its equity stakes. It holds 250-plus bond positions, but none are more than 0.5% of total assets. Government bonds made up more than 60% of the fixed-income portfolio in 2007,

but low yields have turned Kaliebe's attention to corporate bonds and asset-backed securities, which now make up nearly all of the fund's bond holdings. These include securities issued by insurance companies, energy firms, and airlines. Minnesota-based issuers are less pronounced here, with the exception of firms such as Land O'Lakes.

Performance Pillar + Positive | Tony Thomas
03/27/2018

This fund's 2017 underperformance was not unexpected given its process. But with solid long-term numbers, including competitive risk-adjusted returns, the fund retains its Positive Performance rating.

Because the managers prefer high-quality stocks with steady growth trajectories, they are typically light on technology, so the fund missed much of 2017's large-cap tech rally. But they're not tech-averse; they added Alphabet GOOG in late 2016 after it passed their valuation and competitive-advantage analysis. Even so, the fund's top contributors for calendar-year 2017 were true-blue Mairs & Power picks: equipment-maker Graco GGG and diversified medical device-maker Abbott Laboratories ABT, both based in the Upper Midwest.

Even with 2017's mediocre showing versus its peers, the fund's long-term numbers are attractive. Since Ron Kaliebe became a manager here at the start of 2006, the fund's 7.4% annualized total return through February 2018 beat more than 85% of its moderate-allocation category peers, with lower volatility and a higher risk-adjusted return than the peer average (as measured by standard deviation and Sortino ratio, respectively). The fund also stacked up well against the Morningstar Moderate Target Risk category index, topping the index's 6.5% annualized tally and posting a slightly higher risk-adjusted return over Kaliebe's tenure.

People Pillar + Positive | Tony Thomas
03/27/2018

The stability and veteran leadership of this fund's management team merit a Positive People rating.

Mairs & Power's structure and history of smooth manager transitions builds confidence in the management team. Managers Ron Kaliebe and Kevin Earley are members of a 12-person investment committee that vets all portfolio decisions and prospects using the firm's core principles. In anticipation of longtime manager Bill Frels' retirement, Kaliebe was named lead manager here on July 1, 2013, after seven years as Frels' comanager. When Frels stepped away at the end of 2014, the firm ensured a two-person team remained at the helm by promoting Kevin Earley to comanager. The firm's careful planning was evident recently as it added resources under Kaliebe, who is in his mid-60s. It hired Bob Thompson, a fixed-income analyst, in April 2016. His work with investment-grade and high-yield bonds at Advantage Capital complements Kaliebe's strengths in fixed-income analysis.

Together, Kaliebe and Earley boast considerable investment experience. Before arriving at Mairs & Power in 2001, Kaliebe was a portfolio manager at US Bancorp and the chief investment officer at MSI Insurance Companies. Earley, who joined the firm in 2013, started his investment career at US Bancorp's FAF Advisors, later acquired by Nuveen, and was one of several comanagers on two mid-value funds.

Parent Pillar + Positive | Tony Thomas
03/23/2018

Mairs & Power Inc. is a small firm that stands out for its conservative investment philosophy and history of smooth leadership transitions. A spate of recent personnel changes creates some uncertainty, but the firm retains its Positive Parent rating.

A key retirement led to a series of moves. Chairman and CEO Jon Theobald stepped away at the end of 2017. Mark Henneman, lead manager of Mairs & Power Growth MPGFX and formerly the firm's president and CIO, moved into Theobald's place. Henneman's duties were then split: Andy Adams, the lead manager of Mairs & Power Small Cap MSCFX and comanager on Mairs & Power Growth, became CIO; and Rob Mairs, a descendant of the firm's founder, became president. Mairs is a former lawyer who came to the firm in 2015 to prepare for his leadership role. The magnitude of these changes and Mairs' relatively short tenure raise eyebrows, but the

firm deserves praise for anticipating these moves and telegraphing its plans in advance.

The firm's investment culture provides some stability. Twelve investment professionals form a committee that promotes the core tenets of Mairs & Power's philosophy. Their preference for buying and holding quality companies that have durable competitive advantages, along with their ongoing relationships with companies—particularly near their St. Paul, Minnesota home—gives this firm an edge in fundamental analysis.

Price Pillar + Positive | Tony Thomas
03/27/2018

This fund's sole share class charges a below-average fee, earning a Positive Price rating.

The expense ratio on the no-load Investor shares is a reasonable 0.72%. That's well below the 0.91% median for similarly sold moderate-allocation funds. Lower costs give this fund an important edge in a category where bonds make up a significant portion of portfolios.

Morningstar 2018 Analyst Report: Mairs & Power Balanced Fund (MAPOX)

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. Read the prospectus and summary prospectuses carefully before investing.

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 worth more or less than their original cost. Current performance of the Funds may be lower or higher than the performance quoted. As of the prospectus dated April 30, 2018, Mairs & Power Growth Fund, Mairs & Power Balanced Fund, and Mairs & Power Small Cap Fund have annual expense ratios of 0.64%, 0.71%, and 1.04%, respectively. For the most recent month-end performance figures, visit the Funds' website at www.mairsandpower.com or call Shareholder Services at (800) 304-7404.

Average Annual Total Returns for Periods Ending June 30, 2018

	<u>YTD</u> ⁽¹⁾	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>	<u>20 Years</u>	<u>Since Inception</u>
Mairs & Power Growth Fund ⁽²⁾	-2.25	5.55	8.60	10.39	10.34	9.13	11.26
Mairs & Power Balanced Fund ⁽²⁾	-2.67	3.25	6.03	7.12	8.07	7.15	9.51
Mairs & Power Small Cap Fund ⁽²⁾	5.09	8.02	10.65	12.19	N/A	N/A	17.15
S&P 500 Total Return (TR) Index ⁽³⁾	2.65	14.37	11.93	13.42	10.17	6.46	N/A
Composite Index ⁽⁴⁾	0.88	8.24	7.93	8.98	7.87	6.09	N/A
S&P 600 Small Cap Total Return (TR) Index ⁽⁵⁾	9.39	20.50	13.84	14.60	N/A	N/A	N/A
Morningstar Moderate Target Risk Index ⁽⁶⁾	-0.31	6.92	6.41	6.92	6.28	N/A	N/A

⁽¹⁾ Not annualized

⁽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 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.

⁽⁴⁾ The Composite Index reflects an unmanaged portfolio of 60% of the S&P 500 TR Index and 40% of the Bloomberg Barclays U.S. Government/Credit Bond Index. It is not possible to invest in an index.

⁽⁵⁾ The S&P SmallCap 600 Total Return Index is an index of small-company stocks managed by Standard & Poor's that covers a broad range of small cap stocks in the United States. 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 the 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.

⁽⁶⁾ Morningstar Moderate Target Risk Index is designed to benchmark target-date and target-risk investment products. Index is based on well-established asset allocation methodology from Ibbotson Associates, a Morningstar company. Index has 60% global equity exposure and 40% global bond exposure. It is not possible to invest directly in an index.

The statements and opinions are those of the author as of the date of this report. All information is historical and not indicative of future results and subject to change. The reader should not assume that an investment in the securities

mentioned was or would be profitable in the future. This information is not a recommendation to buy or sell. Past performance is not indicative of future results.

All investments have risks. The Funds are designed for long-term investors. Equity investments are subject to market fluctuations and 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 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 publically traded.

The stocks mentioned herein represent the following percentages of the total net assets of the Mairs & Power Balanced Fund as of June 30, 2018: 3M Co. 2.25%, Abbott Laboratories 2.30%, Advantage Capital 0.00%, Alphabet Inc Cl C 2.45%, Ecolab, Inc. 2.68%, Graco, Inc. 1.95%, Land O' Lakes 0.00%, Mayo Clinic 0.00%, Medtronic PLC 3.24%, MSI Insurance Companies 0.00%, Nuveen 0.00%, U.S. Bancorp 3.02%. 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 offer for a particular security, nor is it intended to be a solicitation for the purchase or sale of any security.

As of 6/30/2018, the Balanced Fund has an overall Morningstar Rating of 4 stars and 3 stars, 3 stars, and 5 stars for the overall, 3-, 5- and 10-year periods among 674, 674, 617, and 439 moderate allocation funds, respectively, based on Morningstar Risk-Adjusted Return. The Morningstar Rating for funds, or star rating, is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed end funds, and separate accounts) with at least three-year history. Exchange-traded funds and open ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receives 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five- and 10-year (if applicable) Morningstar Rating metrics. The weights are 100% three-year rating for 36-59 months of total returns, 60% five-year rating, 40% three-year rating for 60-119 months of total returns and 50% 10-year rating, 30% five-year rating, 20% three-year rating for 120 or more months of total returns. While the 10-year overall rating formula seems to give the most weight for the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. © 2018 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

As of 6/30/2018, the risk adjusted return rank for the Mairs & Power Balanced Fund Rank is 94 for 1-year, 42 for 3-year, 50 for 5-year, 11 for 10-year and 19 for 15-year based on 766, 674, 617, 439 and 255, respectively, in the Moderate Allocation Category.

Standard Deviation is a measure of the dispersion of a set of data from its mean.

Sortino ratio measures the risk-adjusted return of an investment asset, portfolio or strategy by calculating the excess return over the risk-free rate divided by the downside semi-variance.

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

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