

# Mairs & Power Embraces New Initiatives While Preserving Investment Firm's Culture

After nine decades, the firm is hiring more women and becoming a venture capital player.

In mid-June, hundreds of people gathered on a Thursday night at the Mendakota Country Club in Mendota Heights to celebrate the 90th anniversary of Mairs & Power.

The investment firm, which long has been housed in the First National Bank Building in downtown St. Paul, still adheres to the credo of founder George A. Mairs Jr. to take a disciplined, long-term approach to investing.

During the Great Depression, the founder invested heavily in railroads when St. Paul was a railroad town. In 2022, the stock market has been volatile as investors and companies adapt to an economy challenged by inflation, Covid-19, supply chain woes, and a war in Ukraine.

Despite the chaos in the economy, Mairs & Power chose to celebrate its enduring relationships with clients, shareholders, and friends of the firm.

In political parlance, Mairs & Power has high name ID among the individuals, companies, and institutions that have invested their money with the firm. By 2021, the firm was managing about \$12 billion in assets. Its frequent success in picking stocks that outperform the markets overall has drawn national attention in the investment community.

Yet in an era when companies in many sectors market themselves 24/7, Mairs & Power is somewhat of an enigma to the general public. It doesn't advertise its accomplishments to a broad audience, even in its home state of Minnesota.

In a recent interview with Mark Henneman, the firm's chairman and CEO, Twin Cities Business asked him how Mairs & Power has succeeded and remained independent, why it has moved into the venture capital space, how it is recruiting women to the firm, and what it's doing to create new ways of doing business without losing its core values.

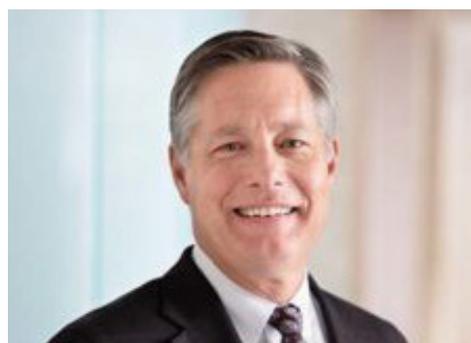
During the interview, Henneman also disclosed that he plans to retire from the CEO and chairman roles on Dec. 31, 2026. "I'm focused on developing the leadership for the next generation here," he said, from a Mairs & Power conference room. In a "careful, deliberate way" he wants to use the next four years to make changes that "prepare the company for its second century."

## ST. PAUL, FAMILY ROOTS

Mairs & Power draws its name from founder Mairs Jr. and George C. Power Jr., who joined the firm after World War II and built a large base of individual investor accounts. In the mid-1950s, Mairs Jr. offered Power a partnership and renamed his firm Mairs & Power. Those two men and George Mairs III shaped and built the St. Paul-based firm's business and culture over many decades.

Henneman, who isn't a member of the Mairs or Power families, joined the company in 2004. A Hopkins native with an MBA from the Carlson School of Management, Henneman was in the middle of his career when he was recruited by Mairs & Power executive Jon Theobald.

"He was on the investment committee of the Bigelow Foundation," Henneman recalled. "U.S. Bank, which is where I was working at the time, was managing assets for them. I did a presentation and Jon Theobald was there."



Mairs & Power CEO Mark Henneman

Theobald persuaded Henneman to leave U.S. Bank and help grow Mairs & Power, which had 14 employees at the time. He was told he would be working closely with investment veteran Bill Frels and George Mairs III, a St. Paul Academy and Macalester College graduate who was named the firm's president in 1980. In the late 1950s, George Mairs III had urged his father to establish the Mairs & Power Growth Fund as mutual fund investing was taking hold.

"When George stepped down from his long run as the Growth Fund's manager in 2004, the Fund was experiencing another of its vintage years," according to Mairs & Power at 90: A Rich History, A Bright Future, a book by Dave Beal. "It wrapped up the year posting an 18% total return vs. 10.9% for the S&P 500. This performance followed a string of strong showings in preceding years and accelerated a new surge in assets, which rose 57% to \$2.06 billion during 2004."

After many conversations with Theobald, Henneman took the plunge and cast his future with Mairs & Power. "The only job they really defined for me is, 'We want you to create the buy and sell list,'" Henneman recalled.

## MAIRS & POWER APPROACH

Henneman was intrigued that Mairs & Power was employee-owned and made investment choices for

the long haul. "I did understand the long-term buy and hold [strategy], which was very appealing to me," Henneman said. "It was the way I ran my own personal portfolio."

In his initial years with the firm, Henneman spent considerable time absorbing stock and business lessons from George Mairs III. "He was looking for companies that had what Warren Buffet would call an economic moat," he said. "When you have an attractive business, you get a lot of competition. You've got to have some way of defending yourself, a moat around your business."

Mairs III liked the business strategy of Graco, a Minnesota manufacturer founded in 1926 by the Gray brothers. Henneman said that Mairs III had focused on the fact that "every business that they dominate are actually tiny businesses," so bigger companies did not take the time to develop competing products in Graco's small market niches that produced financial success.

Henneman, who started his career in the 1980s working for Ross Perot's Electronic Data Systems in Texas, was amazed at the reservoir of knowledge that Mairs III kept in his head—from the specifics of a business strategy to the historical performance of a company stock.

Based on his understanding of stocks and information technology, Henneman started constructing a computer-based analytical model that several people in the firm could use. "I built a framework around earnings expectations and appropriate relative valuations, which computers are very good at monitoring," he said.

Mairs & Power has differentiated itself as a firm in three distinctive ways.

Mairs III was intensely focused on the valuations of stocks. "He was very much a believer in you just let these companies' [stocks] ride," Henneman said. "You hold them, you don't trade in and out of them."

That philosophy is still paramount at Mairs & Power. "The typical investment management firm has a dramatically shorter time horizon than we do," Henneman said. "If you look at the average turnover of a mutual fund in America it's somewhere around 100%, which means that their time horizon is one year," he said. The Mairs & Power turnover is close to 10%, representing a rare, 10-year time horizon.

Second, Mairs & Power distinguished itself by investing in Minnesota-based companies. The firm reaped the "benefits of proximity," because its financial performance was boosted by the fact that many Minnesota companies that Mairs & Power knew well were growing rapidly.

"When I got here, 90% of the companies in the Mairs & Power Growth Fund were Minnesota-based," Henneman said. While the regional focus is still

important, he says, the Minnesota-based stocks allocation has dropped. Minnesota companies now make up 41% of the equity geographic allocation for the Growth Fund.

Mairs & Power wants to invest in companies that have what Henneman describes as a “durable, competitive advantage.”

In recent years, the firm has been adding investments in technology companies that are not based in Minnesota, such as Alphabet, Google’s parent company. During his 18 years with the firm, Henneman said, the biggest change in the investing landscape has been “the rising importance of technology and communication services to our overall economy.”

The third pillar of the Mairs & Power investment philosophy is its multi cap approach. In printed materials, the firm said, it aims to “identify strong companies exhibiting the potential for long-term, above-average earnings growth, regardless of size or sector constraints.” Consequently, the firm said, it’s “not forced to sell good investments by arbitrary market capitalization rules.”

“We just invest where we see value,” Henneman said.

## EMBEDDING FIRM VALUES IN THE NEXT GENERATION

Mairs & Power has grown into a firm that now employs 46 people.

Robert (Rob) Mairs, president, chief compliance officer, and general counsel, joined the firm in 2015. He is the only member of the Mairs and Power families to currently work for the company.

“As I looked around the office, the number of people who knew George Mairs III is fewer and fewer,” Henneman said. “It was so important to me to be understanding that history. How can I convey that?”

One way was documenting the Mairs & Power story in a compelling book. Henneman and Theobald hired Dave Beal, a retired business editor and columnist of the St. Paul Pioneer Press, to capture the firm’s story.

What Beal ultimately produced is a 259-page book that meticulously chronicles the key firm leaders and how Mairs & Power has made a distinctive mark in the national investment community. Woven among those narratives are stories of the economic and cultural history of St. Paul, Minnesota, and the nation.

“The leaders at the firm wanted this history to help mark their 90th anniversary as a free-standing, independent firm,” Beal wrote in the book’s preface. “I realized at the outset that one of the ‘known unknowns’ would be how any firm in this ever-turbulent corner of our economy could come through nearly a century and not be rolled up into a rival, wither away, or just flat-out collapse.”

Covid-19 surfaced shortly after Beal signed on to do the book project. Yet the book still managed to get published in late 2021, the year of the firm’s 90th anniversary. While Mairs & Power has distributed the book to employees and clients, the general public can purchase the book through its publisher, the Ramsey County Historical Society.

Men have been top leaders of the firm through its first nine decades and their work is extensively cov-



Mairs & Power CEO Mark Henneman, left, was photographed in St. Paul with former CEO Jon Theobald, center, and president Robert Mairs. COURTESY OF MAIRS & POWER

ered in the book. However, Beal also addresses the topic of diversity and inclusion in the firm’s history. He notes that Mary Schmid Daugherty, a finance professor at the University of St. Thomas, became the first woman to chair the firm’s mutual fund board. That was in 2018. She’s served on the board for more than a decade.

Michelle Warren joined the firm as its first female investment professional in 2016. She’s been promoted twice and is now a vice president and investment manager. Melissa Gilbertson, who recently succeeded Andrea Stimmel as chief operating officer, became a firm shareholder in 2015.

Henneman wants to increase the number of women employed by the firm. “We need to focus earlier in people’s careers to attract women into our industry,” he said.

“We set up an internship program and we focused on the University of Wisconsin at Madison,” he said. “Between the first and second year of the MBA, we offer students an internship to do equity research here.”

A graduate student who had an impressive internship performance was Wendy Lee, who now works as an equity analyst at Mairs & Power. She joined the firm in 2019.

## VENTURE CAPITAL

About two-thirds of Mairs & Power assets are in mutual funds and other assets are in individually managed accounts for people, nonprofits, and institutional investors.

Mairs & Power has three mutual funds—the Growth Fund, the Balanced Fund, and the Small-Cap Fund. It also offers the Minnesota Municipal Bond ETF, which stands for exchange-traded fund.

Last year, the firm established a Mairs & Power venture capital fund, which operates as a separate entity.

Mairs & Power hired John Bergstrom, who has spent his career involved in the venture capital business, to manage the fund. Bergstrom and Henneman both graduated from Gustavus Adolphus College, a liberal

arts school in St. Peter, in the early 1980s. Bergstrom was an economics major and Henneman was a business major.

The fund is expected to invest in high potential venture-stage companies in the Upper Midwest. Fund leaders are particularly interested in software, business services, healthcare, and financial and educational technology companies.

The Mairs & Power venture fund was launched with \$20 million that was raised from three groups of people. About half of the money came from Mairs & Power shareholders, Henneman said, while the other half came from the firm’s clients and associates of Bergstrom.

Fundraising for the new venture capital fund is closed. “We are absolutely not marketing anything right now,” he said.

In late July, akoyaGO, a Bloomington-based software company, announced that it had received a \$1 million investment from the Mairs & Power venture capital fund. Bergstrom has joined the board of akoyaGO, which is the first portfolio company in the new fund.

Two other companies also have received support from the Mairs & Power venture fund. They are BetterYou, a St. Paul-based company that’s developed a health and wellness mobile app, and SiteKick Technologies Inc., a Minneapolis firm involved in construction site monitoring and reporting.

“The thing that makes this unique is that John Bergstrom has access to the Mairs & Power research team,” Henneman said. “It’s a team that’s got combined hundreds of years of experience looking at markets and the marketplace and can help assess the likelihood that a business model could be successful.”

## TWIN CITIES BUSINESS

TCBMag.com | August 2022

## Twin Cities Business Article: Mairs & Power Embraces New Initiatives While Preserving Investment Firm’s Culture

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 Mutual Fund Shareholder Services at (800) 304-7404 or ETF Shareholder Services at 855-839-2800 or by visiting [www.mairsandpower.com](http://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 20, 2023, Mairs & Power Growth Fund, Mairs & Power Balanced Fund, and Mairs & Power Small Cap Fund have annual expense ratios of 0.63%, 0.69%, and 0.92%, respectively. The ETF Fund may trade at a premium or discount to NAV. Shareholders may pay more than NAV when they buy Fund shares and receive less than NAV when they sell those shares, because shares are bought and sold at current market prices. For the most recent month-end performance figures, visit the Funds’ website at [www.mairsandpower.com](http://www.mairsandpower.com) or call Mutual Fund Shareholder Services at (800) 304-7404 or ETF Shareholder Services at 855-839-2800.

### Average Annual Total Returns for Periods Ending September 30, 2023

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>	<u>20 Years</u>	<u>Since Inception</u>
<b>Mairs &amp; Power Growth Fund<sup>(1)</sup></b>	18.53	9.24	8.63	9.79	9.58	11.18
<b>Mairs &amp; Power Balanced Fund<sup>(1)</sup></b>	8.80	4.34	5.04	6.39	7.32	9.22
<b>Mairs &amp; Power Small Cap Fund<sup>(1)</sup></b>	7.46	10.52	3.04	7.17	N/A	11.36
<b>Mairs &amp; Power Minnesota Municipal Bond ETF (NAV)<sup>(1)</sup></b>	2.17	N/A	N/A	N/A	N/A	-5.77
<b>Mairs &amp; Power Minnesota Municipal Bond (Market Price)<sup>(1)</sup></b>	1.80	N/A	N/A	N/A	N/A	-5.83
<b>S&amp;P 500 Total Return (TR) Index<sup>(2)</sup></b>	21.62	10.15	9.92	11.91	9.72	N/A
<b>Composite Index<sup>(3)</sup></b>	13.14	3.96	6.40	7.82	7.23	N/A
<b>S&amp;P 600 Small Cap Total Return (TR) Index<sup>(4)</sup></b>	10.08	12.10	3.21	8.15	N/A	N/A
<b>Bloomberg Minnesota Municipal TR Index<sup>(5)</sup></b>	1.63	N/A	N/A	N/A	N/A	-3.40

- <sup>(1)</sup> 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.
- <sup>(2)</sup> 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.
- <sup>(3)</sup> The Composite Index reflects an unmanaged portfolio of 60% of the S&P 500 TR Index and 40% of the Bloomberg U.S. Government/Credit Bond Index. It is not possible to invest in an index.
- <sup>(4)</sup> 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.
- <sup>(5)</sup> Bloomberg Minnesota Municipal TR Index is a market capitalization-weighted index of Minnesota Investment-grade bonds with maturities of one year or more. It is not possible to invest directly in an index. The Composite Index reflects an unmanaged portfolio of 60% of the S&P 500 TR Index and 40% of the Bloomberg U.S. Government/Credit Bond Index. It is not possible to invest 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. Diversification does not eliminate the risk of experiencing investment losses.

The stocks mentioned herein represent the following percentages of the total net assets as of September 30, 2023. For the Mairs & Power Growth Fund: akoyaGo 0.00%, Alphabet Inc. 5.00%, BetterYou 0.00%, Electronic Data Systems 0.00%, Graco Inc. 3.71%, and SiteKick Technologies 0.00%. For the Mairs & Power Balanced Fund: akoyaGo 0.00%, Alphabet Inc. 3.77%, BetterYou 0.00%, Electronic Data Systems 0.00%, Graco Inc. 1.74%, and SiteKick Technologies 0.00%. For the Mairs & Power Small Cap Fund: akoyaGo 0.00%, Alphabet Inc. 0.00%, BetterYou 0.00%, Electronic Data Systems 0.00%, Graco Inc. 1.20%, and SiteKick Technologies 0.00%. For the Mairs & Power MN Bond ETF: akoyaGo 0.00%, Alphabet Inc. 0.00%, BetterYou 0.00%, Electronic Data Systems 0.00%, Graco Inc. 0.00%, and SiteKick Technologies 0.00%. 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.

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.

Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Because the Fund invests substantially in Minnesota municipal instruments, it is more exposed to the impact of negative political, economic and legislative factors within Minnesota than a fund that invests more widely. Because the Fund is "non-diversified," it may invest a greater percentage of its assets in the securities of a single issuer or a smaller number of issuers than if it were a diversified fund. The Fund is also subject to risks associated with investments in the municipal bond market, municipal mortgage-backed securities, and other investment companies. The Fund is a recently organized management investment company with no operating history. As a result, prospective investors have a limited track record on which to base their investment decision. There is also a risk that the Fund will not grow to or maintain an economically viable size, in which case it could ultimately liquidate without shareholder approval.

Some of the Fund investments may be subject to AMT. Although the Fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes.

**Foreside Fund Services, LLC is the Distributor for the Mairs & Power Funds.**

M&PI-D-444197-2023-10-23