DECEMBER 31, 2023

Balanced Fund

FOURTH QUARTER RESULTS

MAIRS & POWER

Focused Long-term Investing

Market Overview | Fourth Quarter 2023

The market's performance for most of 2023 was driven by the "Magnificent 7" Technology stocks. However, in the fourth quarter, we saw signs that the market is broadening. The market rallied from its third-quarter plunge, with much of recovered ground due to stabilizing interest rates and moderating inflation. The S&P 500 Total Return (TR) rose 11.69% for the quarter and 26.29% for the year, the Dow Jones Industrial (TR) gained 13.09% in the quarter and 16.18% in 2023, and the Bloomberg U.S. Government/Credit Bond Index returned 6.63% in the fourth quarter and 5.72% for the year.

Economic indicators were generally mixed throughout 2023. The labor market has remained resilient to lulls in the market, with unemployment remaining close to record lows. Jobless claims have gone up-and-down from week-to-week, but they've stayed at very low levels. However, the housing market is struggling, with sales of existing homes down substantially. On the other hand, new construction is increasing, and prices are holding up. Finally, despite consumer confidence being soft throughout much of the year, household spending still grew at a moderate pace.

Looking back at 2023, inflation was the central theme throughout and continued its gradual slow down. There were some nervous moments, particularly in the third quarter when oil prices spiked higher and economic growth temporarily accelerated. Market worries that inflation was rising once again led to a sell-off. But as the fourth quarter progressed, those trends reversed, and the inflation news continued to improve. In November, the Federal Reserve (Fed) delivered an early Christmas present, declaring that interest rate cuts are likely in 2024.

More glad tidings about inflation arrived just before Christmas. In December, the federal government reported that the personal-consumption expenditures (PCE) price index, an index closely monitored by the Fed, fell 0.1% in November. That's the first time that the PCE index had declined since April 2020. The government also reported that core inflation dropped to an annualized rate of 1.9%.

Other economic data provided additional comfort and joy during the holiday season. Overall personal income rose 0.4% in November, compared to a 0.3% gain in October. What's more, consumer spending rose 0.2% in November, higher than 0.1% in October, though lower than September's 0.7% increase. All this may be why the Conference Board's Consumer Confidence Index rose significantly in December, with early signs suggesting that shoppers boosted their holiday spending. All this upbeat news led the economy and the market to end the year mostly merry and bright.

Future Outlook

Early in 2023, the outlook for earnings deteriorated. In January, the consensus was that earnings would grow 8% for the year. By April, the expectation was no growth at all. But from there, earnings growth expectations began to climb. Now, the consensus for 2023 is that earnings grew 7% and are expected to grow 6% in 2024. The positive trends in earnings, interest rates, and of course inflation all provide support to the market outlook for 2024.

With earnings growth expectations improving, many stocks that lagged the market last year have brighter prospects in 2024. Value stocks could become in vogue again. In 2022, value stocks outperformed growth by about 23%, but that more than reversed last year, with growth outperforming value by 37%. We anticipated that growth stocks would perform better due to a dampening earnings picture. Now, the trends suggest that sectors dominated by value holdings could come back powerfully in the coming year.

The future also looks sunnier for mid-cap stocks. While the gap between large-cap and mid-cap valuations has widened in the past few years, it's worth noting that mid-cap earnings growth has kept pace with the S&P 500. We believe many mid-caps are trading at a discount, and we expect the valuation gap to close at least a little bit.

However, there is one dark cloud on the horizon in consumer spending. While consumers seemed more upbeat at the end of 2023, the gloom they felt through most of last year hasn't completely lifted. Despite a resilient economy, many people still feel that their finances are tight. One reason: While inflation is slowing and wages have been rising, the prices of goods remain well above their pre-pandemic levels. In other words, while the cost of dinner at a favorite restaurant may not have increased since September, it could still be 20 percent higher than in 2021. Those kinds of elevated prices can cause a lasting gloom that takes a while to dissipate. To be sure, some items did drop in price during the fourth quarter, but many families are still finding it difficult to make ends meet.

As we look forward to 2024, we remain committed to investing in companies with durable competitive advantages for the long-term. Whether we experience a soft landing or a recession, we invest for entire economic cycles and not the short-term. We will continue with the same investment process and philosophy that has served our clients well for more than 90 years.

Past performance is not a guarantee of future results.

Performance Review

The Mairs & Power Balanced Fund finished 2023 up 13.39%. The Fund underperformed the benchmark composite index (60% S&P 500 Total Return Index and 40% Bloomberg U.S. Government/Credit Bond Index), which was up 17.76%, while the Morningstar Moderate Allocation peer group rose 13.51%.

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 Fund may be lower or higher than the performance quoted. For the most recent month-end performance figures, please call Shareholder Services at (800) 304-7404. Expense Ratio 0.69%.

Asset allocation positively impacted performance as the Fund remained overweight equities in a period in which stocks significantly outperformed bonds. Both asset classes delivered positive absolute returns for the year. However, the equity portion of the portfolio underperformed its respective benchmark while the fixed income portion outperformed its respective benchmark.

In 2022, a series of Fed interest rate hikes led equity markets to prefer value stocks as investors favored the visibility of current earnings more than the growth of future earnings. This trend reversed in 2023 as inflation pressures eased and investors anticipated the end of rising interest rates. In addition, a small group of mega cap stocks comprised market leadership aided by investor enthusiasm for the emerging market for artificial intelligence. While the Fund had some exposure to these companies, our more diversified approach and income objective left us generally underrepresented in this narrow leadership group.

The Fund's underweight stance in the Technology sector had a sizeable negative impact on relative performance in 2023. The most significant driver of underperformance in the sector was the absence of two large benchmark weights - Apple (AAPL) and NVIDIA (NVDA) – which performed strongly during the year. Semiconductor manufacturer Texas Instruments (TXN) lagged its peer group because the company is currently making significant investments in next-gen manufacturing capacity which will drive revenue and earnings growth well into the next decade. We think these investments will strengthen their long-term competitive position so we increased our holdings throughout the year. Microsoft (MSFT), the Fund's largest holding, is an established leader in enterprise software and cloud computing with an emerging leadership position in AI which helped propel the stock to new all-time highs. Salesforce (CRM) performed well due to strong demand for its enterprise software and AI offerings as well as a significant improvement in profitability. Entegris (ENTG) benefited from an improving outlook for semiconductor capital expenditures, which should drive higher demand for their advanced materials and filtration products. We trimmed our positions in Microsoft and Salesforce during the year as strong share price performance caused the risk / reward profiles to become more balanced.

The Fund has long maintained a significant representation in the Healthcare sector due to the high concentration of medical companies in our region which have the durable competitive advantage qualities we seek. While our overweight stance in this lagging sector weighed on relative performance, our security selection within the sector was positive. Drug manufacturer Eli Lilly (LLY) was one of our largest holdings and performed very well due to enthusiasm for its Type 2 diabetes drug Tirzepatide which recently received FDA approval for use in the treatment of obesity. While we still have a favorable view of the company's long-term opportunities, we trimmed the position as the stock's risk / reward profile became more balanced. Bio-Techne (TECH) underperformed during the year after scaling back its intermediate-term growth targets. We think the company has made smart investments in their product portfolio and will benefit from the use of AI in its research process. As such, we used the recent share price weakness to add to our position.

Robert W. Thompson, CFA
Co-Manager
left

Kevin V. Earley, CFA
Lead Manager
right

The Consumer Staples sector lagged the broader market as investors anticipating the end of interest rate hikes sought cyclical exposure over stability. In addition, the group was unfavorably impacted by uncertainty related to the expected growth of obesity drugs and the resultant effect on future food demand. Hormel (HRL) underperformed after reducing growth targets and announcing a restructuring effort focused on portfolio optimization. Hershey (HSY) lagged as price elasticities have unfavorably impacted sales volumes while sugar and cocoa inputs have recently experienced price increases. We feel that the recent pressures facing these two companies will ease over time so have used recent price weakness to add to our positions.

After a difficult first half driven by banking turmoil in the spring, relative performance in the Financials sector finished positively due to stabilization of deposit flows and a resilient economic backdrop. Fiserv (FI) continues to deliver consistent double-digit earnings growth driven by growth in its payment processing business as its Clover platform makes further inroads with merchant customers. Visa (V) and American Express (AXP) benefited from continued strength in consumer spending patterns across their credit card networks. Northern Trust (NTRS) – which boasts a best-in-class trust and wealth management business – has struggled this year as deposit outflows in the face of higher interest rates pressured net interest income. The stock regained some of this lost ground during the second half and we believe this leading franchise will produce better returns going forward.

Although our exposure to the Materials segment is small with only three holdings, it helped produce positive relative returns during the year after a difficult 2022. Ecolab (ECL) and Sherwin-Williams (SHW) both rebounded sharply as raw material pressures eased and pricing actions combined with operational efficiency led to strong profit margin expansion. We took the opportunity to trim our position in Sherwin-Williams after its positive recent share price performance.

Lastly, relative performance in the equity portfolio benefited from the absence of holdings in the Energy sector which was among the worst performing sectors in the market last year. We continue to believe that long term sector fundamentals will struggle in the face of an increasing supply of alternative energy sources as well as declining demand as consumers and businesses continue to shift away from the internal combustion engine.

On the fixed income side, it was an interestingly volatile year. Interest rates rose on the 10-year bond from 3.88% to start the year to nearly 5% during the fourth quarter. With economic data suggesting declining inflation and a potential end of the Fed's interest rate hikes, the 10-year rate precipitously fell back below 4% to end the year almost exactly where it started. The Fund's fixed income portfolio outperformed its respective benchmark in 2023, achieving a high single digit total return. Readers might recall that 2022 was quite possibly the worst year in modern fixed income history with returns falling into negative double digits, so 2023 was a welcome reprieve

Return on equity (ROE) is the measure of a company's net income divided by its shareholders' equity.
Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

in the end. The Fund is overweight to corporate bonds and typically has a shorter duration to maturity than the benchmark. The majority of the outperformance this year was driven by corporate spread tightening and credit selection. We continue to execute on our strategy in fixed income, whereby we seek pockets of value and selectively research and buy bonds to help us achieve long-term outperformance.

The volatility in interest rates and the shifting interest rate outlook has impacted where we see value going forward. We continuously assess conditions to determine how the rate outlook could impact each company from both an earnings and valuation perspective. We continue to prefer companies with durable competitive advantages, attractive long-term growth prospects and reasonable valuations as this generally leads to favorable investment returns over time. With current rates portending better fixed income returns, we continue to increase the fixed income weighting in the portfolio while keeping duration and credit quality in check. The Fund's equity style was not aligned with market leadership last year as our preference for income generating stocks at reasonable valuations led us to be underrepresented in the mega cap leadership group. However, we believe our consistent approach to both stock and bond selection will deliver sustainable investment performance over the long term.

Mairs & Power Balanced Fund Contributors

Year-to-Date (%) 12/31/2022—12/31/2023

LARGEST CONTRIBUTORS TO RELATIVE PERFORMANCE		LARGEST DETRACTORS FROM RELATIVE PERFORMANCE	
Eli Lilly & Company	60.91	Hormel Foods Corporation	-27.48
Alphabet Inc. Class C	58.83	Hershey Company	-17.88
Ecolab Inc.	37.94	Toro Company	-13.96
Fiserv, Inc.	31.43	Bio-Techne Corporation	-6.49
Graco Inc.	30.63	Roche Holdings Ltd. ADR	-5.34

Largest relative contributors and detractors are securities that were selected based on their contribution to the portfolio as of December 31, 2023. The performance number shown is total return of the security for the period and includes only securities held for the entire period. Total return is the amount of value an investor earns from a security over a specific period and when distributions are reinvested. 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 Balanced Fund as of December 31, 2023: American Express Co 0.64%, Alphabet, Inc. 3.64%, Apple Inc. 0.00%, Bio-Techne Corp. 1.60%, Ecolab, Inc. 2.02%, Eli Lilly & Company 1.86%, Entegris Inc. 0.83%, Fiserv Inc. 2.72, Graco Inc. 1.80%, Hershey Co. 1.43%, Hormel Foods Corp 1.57%, Microsoft Corp. 3.90%, NVIDIA Corp. 0.00%, Northern Trust Corp. 0.93%, Roche Holdings Ltd Sponsored ADR 0.93%, Salesforce Inc. 0.81%, Sherwin Williams Co. 1.28%, Texas Instruments 1.79%, Toro Company 2.12%, Visa Inc. 1.94%.

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 Annualized Returns (%) as of 12/31/2023

Fund/Index	1 YR	5 YR	10 YR	25 YR	SINCE INC
Mairs & Power Balanced Fund[1]	**13.39**	**8.69**	**6.83**	**7.25**	**9.36**
Composite Index[2]	17.76	10.12	8.16	6.40	8.88
Morningstar Category[3]	13.51	8.10	5.77	5.05	—
S&P 500 TR Index[4]	26.29	15.69	12.03	7.56	—
Bond Index[5]	5.72	1.41	1.97	3.91	—

Expense Ratio 0.69%

Inception 1/10/1961

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[1] 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.

[2] 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 directly in an index.

[3] Morningstar Moderate Allocation Category seeks to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold larger positions in stocks than conservative-allocation portfolios. These portfolios typically have 50% to 70% of assets in equities and the remainder in fixed income and cash. It is not possible to invest directly in an index.

[4] 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 is not possible to invest directly in an index.

[5] Bloomberg 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.

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.

The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

The Russell 1000 Index represents the top 1000 companies by market capitalization in the United States. The Growth index is composed of large- and mid-capitalization U.S. equities that exhibit value characteristics . The Value index is composed of large- and mid-capitalization U.S. equities that exhibit value characteristics.

One cannot invest in an index.

Risks: All investments have risks. Mairs & Power Balanced 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 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.

Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower rated and non-rated securities present a greater risk of loss to principal and interest than higher rated securities.

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.

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

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mairsandpower.com

MAIRS & POWER

30 East 7th Street, Suite 2500
St. Paul, MN 55101

Tel 800-304-7404