Mairs & Power Balanced Inv MAPOX

A few changes, but still a good option.

Morningstar's Take MAPOX

Morningstar Rating	★★★★★
Morningstar Analyst Rating	Bronze

Morningstar Pillars	
Process	Positive
Performance	Positive
People	Positive
Parent	Positive
Price	Positive

Role In Portfolio
Core

Fund Performance MAPOX

Year	Total Return (%)	+/- Category
YTD	7.37	-0.29
2018	-2.79	2.97
2017	11.90	-1.31
2016	11.42	4.08
2015	-2.54	-0.61

Data through 2-28-19

3-18-19 | by Tony Thomas

A key retirement will leave behind a relatively short-tenured management team and thin fixed-income resources, dropping Mairs & Power Balanced's Morningstar Analyst Rating to Bronze from Silver.

Mairs & Power typically telegraphs its personnel changes in advance, and its moves here were no exception. In April 2018, it announced then-lead manager Ron Kaliebe would retire in June 2019. To prepare, it promoted comanager Kevin Earley to lead manager and former fixed-income analyst Bob Thompson to comanager. While 14 months is a generous hand-off period, the Earley/Thompson team will still be relatively new. Earley will have managed the strategy for about 4.5 years when Kaliebe steps away; Thompson will have managed only 14 months. By comparison, Kaliebe had comanaged the strategy for seven years when he became lead manager in 2013. Kaliebe oversees the fixed-income sleeve (usually 30% to 40% of total assets), and Thompson hasn't had much time to show what he can do there.

Yet the personnel changes leave attractive features intact. Earley and Thompson sit on an investment committee that provides oversight and research support for the St. Paul, Minnesota firm's three mutual funds. Their conservative investment philosophy favors companies with durable competitive advantages--especially those in their Upper Midwest backyard. The managers have packed the fixed-income sleeve with investment-grade corporates and asset-backed securities in a prudent search for yield. Below-average fees on the fund's sole share class also help.

That's been a recipe for success. From Kaliebe's January 2006 managerial start through February 2019, the fund's 7.3% annualized gain beat the allocation--50% to 70% equity Morningstar Category average of 5.2%. It also edged its prospectus benchmark, an S&P 500/U.S. fixed-income index composite, despite taking slightly more risk with corporate bonds rather than Treasuries. Earley and Thompson need to show that they can extend Kaliebe's fine record.

Process Pillar Positive | Tony Thomas 03/18/2019

The managers' principled approach to long-term investing earns a Positive Process rating. As is typical for the firm, portfolio turnover is low. For the equity sleeve (about 60%-70% of assets), the managers prefer dividend-paying businesses that can consistently generate above-average returns on equity. They also favor companies based near their St. Paul, Minnesota office, and more than 40% of the equity assets are in companies headquartered in the Upper Midwest. The equity portfolio is often heavy in industrials and healthcare, reflecting Mairs & Power's location in a state known for agriculture, manufacturing, and the Mayo Clinic.

The fixed-income approach is simple and conservative. Although the team prefers to hold bonds to maturity, it will adjust the portfolio's average duration gradually in response to the interest-rate outlook. The managers favor investment-grade bonds but will dip below-grade if the issuer looks right. They examine issuers' fundamentals to evaluate creditworthiness. They like smaller issuers or debt backed by steady cash flows or tangible assets, such as bonds issued by insurance companies or airlines.

The managers sit on Mairs & Power's 13-person investment committee, which vets firms' competitive advantages and fundamentals. This collaborative process aids decision-making and builds a pool of prospective investments, particularly in equities.

This moderate-allocation portfolio targets a 60%/40% mix of stocks and bonds but has leaned more toward equities in recent years because of low fixed-income rates. It had 63% of its assets in stocks in December 2018, a bit above its typical peer. The equity sleeve usually has 45-60 holdings across the market-cap spectrum but emphasizes larger, more-established firms. The firm's regional preference shows, with Minnesota-based companies such as US Bancorp USB and 3M MMM among the top 10 holdings. Yet this 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. Firms such as 3M and Ecolab ECL, both based in St. Paul, also have diverse global operations.

The portfolio's bond holdings are smaller and more numerous than its equity stakes. It holds 250-plus bond positions, but none are more than 0.6% of total assets. Government bonds made up more than 60% of the fixed-income sleeve in 2007, but low yields turned the managers' attention to corporate bonds and asset-backed securities, which now make up nearly all of the 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 dairy co-op Land O'Lakes.

Performance Pillar ⊕ Positive | Tony Thomas
03/18/2019
A respectable risk/reward profile earns the fund Positive Performance rating.

The managers' low-turnover approach works best over the long run. From manager Ron Kaliebe's January 2006 managerial start through February 2019, the fund's 7.3% annualized return outpaced the 5.2% average gain for allocation—50% to 70% equity category funds and the 6.2% rise for the Morningstar Moderate Target Risk Index (the category index). The fund's official benchmark--60% S&P 500 and 40% Bloomberg Barclays US Government/Credit--isn't the best fit because the composite index skews toward stocks of larger companies and includes more government-bond exposure than this portfolio. That said, the fund also edged the composite over Kaliebe's tenure.

Because the fund buys stock in some smaller companies and takes modest credit- and interest-rate risks through its corporate bonds, the fund can be more volatile than either the category index or the composite benchmark. Its standard deviation--a measure of volatility--was a bit higher than either index during the period. Even so, the fund's risk-adjusted returns are competitive.

Light exposure to technology stocks led to relatively lackluster calendar-year results in 2015 and 2017. The managers invested only about 6% of the fund's equity assets in technology in 2017, even though tech made up a fifth of the S&P 500.

People Pillar ⊕ Positive | Tony Thomas
03/18/2019
A gradual and well-telegraphed transition should be seamless, retaining this fund's Positive People rating.

Mairs & Power has prepared well for former lead manager Ron Kaliebe's June 2019 retirement. It announced Kaliebe's plans in April 2018 and immediately named comanager Kevin Earley the new lead manager. It also promoted fixed-income analyst Bob Thompson to comanager. These moves gave Kaliebe 14 months to work with the strategy's next generation of leaders.

Earley and Thompson will take over with relatively short track records--at least by Mairs & Power's standards. Earley has comanaged with Kaliebe for four years, but Thompson has only had about a year on the management team. By contrast, Kaliebe had comanaged with former manager Bill Frels for seven years before taking over Frels' lead-manager duties in 2013. Earley and Thompson aren't investing novices, though: Each has more than two decades of industry experience.

Earley and Thompson have some help from the firm at large, and a crucial fixed-income hire is on the horizon. The managers sit on the firm's 13-member investment committee that vets all portfolio decisions and adheres to the 88-year-old firm's core investing principles. The firm also expects to hire a fixed-income analyst soon to complement Thompson's research.

Parent Pillar ⊕ Positive | Tony Thomas
03/08/2019
A series of smooth leadership transitions bodes well for Mairs & Power's long-term stability, earning the firm a Positive Parent rating.

An anticipated retirement from the St. Paul, Minnesota-based firm set changes into motion. Former chairman and CEO Jon Theobald stepped away at the end of 2017. Mark Henneman, then the firm's president and CIO, took his place. Andy Adams, lead manager of the firm's small-cap strategy, became CIO, while Rob Mairs--a descendant of the firm's founder--took the presidency. Each is settling into his respective role. Mairs, who left legal practice to join the firm in 2015, is promoting efficiency by consolidating the firm's operational activities. Henneman and Adams are capable defenders of the firm's well-established, conservative investment approach that favors Upper Midwest companies.

The firm has navigated other changes equally well. When Ron Kaliebe announced his retirement from Mairs & Power Balanced in April 2018, it promoted Kevin Earley to lead manager and Bob Thompson to comanager to work alongside Kaliebe until his final day in June 2019. The firm has also fleshed out its trading staff, added a dedicated quant analyst, and has plans to hire other research support. The moves align the 88-year-old firm's resources with its size and the demands of modern investing while keeping its traditions intact.

Price Pillar ⊕ Positive | Tony Thomas
03/18/2019
Below-average fees on the fund's sole share class earn a Positive Price rating.

The no-load Investor share class levies a reasonable 0.71%. That's below the 0.83% median for similarly distributed shares. Fees have nudged downward to stay competitive: The current prospectus net expense ratio is 2 basis points (a basis point is a hundredth of a percentage point) lower than the rate in 2015's annual report.

The managers' low-turnover style (both with equities and fixed-income securities) keeps trading costs down and reinforces the fund's price advantage. The firm also manages the tax consequences of its trading. The fund has distributed modest (and mostly long-term) capital gains annually and pays out quarterly dividends.

Morningstar 2019 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, 2019, Mairs & Power Growth Fund, Mairs & Power Balanced Fund, and Mairs & Power Small Cap Fund have annual expense ratios of 0.64%, 0.72%, 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 December 31, 2019

	1 Year	3 Years	5 Years	10 Years	20 Years	Since Inception
Mairs & Power Growth Fund(1)	28.39	12.69	9.86	12.97	9.89	11.38
Mairs & Power Balanced Fund(1)	20.32	9.39	7.28	9.78	7.64	9.59
Mairs & Power Small Cap Fund(1)	21.13	6.67	8.05	N/A	N/A	14.84
S&P 500 Total Return (TR) Index(2)	31.49	15.27	11.70	13.56	6.06	N/A
Composite Index(3)	22.64	11.00	8.45	9.87	6.00	N/A
S&P 600 Small Cap Total Return (TR) Index(4)	22.78	8.36	9.56	N/A	N/A	N/A
Morningstar U.S. Fund Allocation-50% to 70% Equity Category(5)	18.89	8.21	5.93	7.39	4.69	N/A

(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 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.

(3) 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.

(4) 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.

(5) Morningstar U.S. Fund Allocation-50% to 70% Equity Category portfolios seek both capital appreciation and income by typically investing 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.

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 December 31, 2019: 3M Company 2.39%, Alphabet Inc. Cl C 2.91%, Ecolab, Inc. 2.18%, Land O' Lakes 0.81%, Mayo Clinic 0.00%, U.S. Bancorp 3.08%. 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 12/31/2019, the Balanced Fund has an overall Morningstar Rating of 4 stars and 3 stars, 4 stars, and 5 stars for the overall, 3-, 5- and 10-year periods among 643, 643, 570, and 420 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. 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 12/31/2019, the risk adjusted return rank for the Mairs & Power Balanced Fund Rank is 33 for 1-year, 33 for 3-year, 21 for 5-year, 8 for 10-year and 11 for 15-year based on 697, 679, 644, 534 and 434, respectively, in the Moderate Allocation Category.

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

An asset-backed security is a financial security collateralized by a pool of assets such as loans, leases, credit card debt, royalties or receivables.

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