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Mairs & Power Growth MPGFX

Taking the right steps to stay competitive.

Morningstar's Take MPGFX

Morningstar Rating	★★★
Morningstar Analyst Rating	Silver

Morningstar Pillars

Process	Above Average
Performance	—
People	Above Average
Parent	Above Average
Price	—

Role In Portfolio
Supporting Player

Fund Performance

Year	Total Return (%)	+/- Category
YTD	5.41	2.17
2022	-21.08	-4.12
2021	29.27	3.20
2020	16.67	0.84
2019	28.39	-0.38

Data through 2-28-23

3-07-23 | by Tony Thomas

Mairs & Power Growth has looked sluggish at times, but its proven lead manager's adjustments should keep it an attractive large-blend option for patient investors. Its sole share class retains a Morningstar Analyst Rating of Silver.

The strategy has gone through tough stretches in recent years. Being light on the market-leading technology sector has hurt during manager Andy Adams' eight-year tenure. Generally avoiding traditional oil and gas companies meant the strategy didn't get their help when energy was a rare bright spot in a challenging 2022.

Yet the managers have been consistent in their approach, and what modifications they've made are appropriate—even promising. Often-volatile energy stocks don't make sense in this portfolio given the managers' preference for steadily growing, competitively secure businesses. For technology, one of the strategy's key challenges has been its focus on Upper Midwest firms. Simply put, many influential tech firms—such as Microsoft MSFT or Nvidia NVDA—are based elsewhere. Adams, who's also had a strong run over nearly 12 years on Mairs & Power Small Cap MSCFX, has helped expand this strategy's horizons—Microsoft and Nvidia were top-10 holdings in late 2022—and thereby eradicate its tech underweighting.

That's not all. This is Mairs & Power's flagship mutual fund—it launched in 1958—and true to the firm's investment style, it has many long-term holdings with large, unrealized capital gains. In 2022, the firm engaged a service to help it get cash without selling as many of these positions, giving the managers greater freedom to part with old stakes, pick up new ones, and fully deploy cash.

So investors here have reasons to stick around. Adams and comanager Pete Johnson have been faithful to their core principles while making reasonable adjustments on the periphery. These need time to bear fruit given the gradual way the managers trade the portfolio. But being patient isn't too costly: The mutual fund's fees are relatively attractive in its peer group.

This strategy remains a reliable long-term option.

Process Pillar Above Average | Tony Thomas 03/06/2023
This strategy's sensible approach, which includes an atypical regional emphasis, earns an Above Average Process rating.

The guiding principle here, as with all Mairs & Power strategies, is to buy and hold financially sound businesses with durable competitive advantages and above-average returns on equity. So far, so good. The managers also prefer companies based near the firm's St. Paul, Minnesota, office, a region where the economy is quite diverse. Looking close to home can give a team valuable access and insight, but it might result in missed opportunities elsewhere. That said, these managers have ranged farther afield—especially during Andy Adams' tenure—when the situation is right.

The strategy's conservative growth expectations might disappoint more-aggressive investors. Ideal companies need only grow steadily at rates just slightly faster than the overall economy. That typically precludes new technologies or commodity-driven industries like energy in favor of slower growers such as machinery makers, medical-device suppliers, health insurers, and regional banks. The managers may invest in companies of any size but often choose larger businesses that can defend their competitive edge.

A 14-member investment committee (which includes this strategy's two managers) ensures consistency. It vets prospects, evaluates firms' fundamentals and competitive positions, and generates a "buy list" of about 15 names to guide the managers' decisions.

The managers' regional preference is apparent. Firms based in the Upper Midwest (which Mairs & Power defines as Minnesota, Wisconsin, Illinois, Iowa, and North and South Dakota) held a little more than half the portfolio's assets in December 2022. By contrast, only about 8% of the Russell 1000 Index Morningstar Category benchmark hailed from that region. The area's range of economic activities—from manufacturing to agriculture, retail, banking, and healthcare—supports a diversified portfolio here. Many regional firms also have national or global reach, including UnitedHealth Group UNH and Ecolab ECL.

Yet the managers are willing to look elsewhere. Four of the December portfolio's top 10 holdings were West Coast firms: Microsoft MSFT, Alphabet

GOOG, Amazon.com AMZN, and Nvidia NVDA. Owning these stocks has spurred other adaptations; for example, to show enough conviction in Microsoft (a 7.8% position in December), they cautiously went beyond their typical 5% cap for individual holdings.

To further diversify and manage risk, the managers monitor the portfolio's sector exposure at the Morningstar Super Sector level, keeping its helpings of cyclical, defensive, or sensitive stocks within 10 percentage points of the prospectus benchmark S&P 500's respective levels. This clever move helps keep the portfolio reasonably diversified without forcing the managers into specific sectors or industries not suitable to their process.

Performance Pillar | Tony Thomas 03/06/2023
Although this fund's official benchmark is the large-cap S&P 500, the portfolio's inclusion of some mid- and small-cap stocks makes the broader Russell 3000 Index a fair yardstick, too. Manager Andy Adams' track record against both looks unimpressive so far. From Adams' January 2015 start through February 2023, the fund's sole share class returned 8.9% annualized, and while that beat the typical large-blend category peer's 8.5%, it trailed the Russell 3000 Index's 10.0% and the S&P 500's 10.4%.

One key problem—which Adams has mostly addressed—was the portfolio's long-standing light stake in tech. Tech has been the Russell 3000 Index's hottest area during Adams' tenure, yet the fund was at least 25% underweight that sector from 2015 to early 2020. Buying and adding to tech leaders such as Microsoft MSFT and Nvidia NVDA —both based outside Mairs & Power's Upper Midwest target area—closed the gap by late 2022 and should help to make performance more about stock-picking and less about sector allocations.

That said, some gaps aren't likely to close, and that hurt recently. The managers' preference for steady growers often keeps them out of energy stocks—whose revenues can be finicky if they're tied to oil prices—and that caused them to miss strong showings in that sector in 2022.

People Pillar ● Above Average | Tony Thomas 03/06/2023
A proven lead manager with solid support earns this strategy an Above Average People rating.

Andy Adams is the right leader for this strategy, which is Mairs & Power's flagship. He took the helm in April 2019 as former lead Mark Henneman (now the firm's chairman and CEO) began stepping back. Adams had served as Henneman's comanager since 2015. He has helped steer the portfolio toward important opportunities outside the Upper Midwest, including Microsoft MSFT, Alphabet GOOG, Amazon AMZN. He's also had a successful run on Mairs & Power Small Cap MSCFX, which he currently leads and helped launch in 2011. A few of its holdings often end up in this portfolio as well. As CIO since 2019, Adams is essential to the preservation and evolution of Mairs & Power's investment culture.

Given his range of duties, it's encouraging that Adams has a broad base of support. He's had Pete Johnson as a comanager here since 2019. Though they are generalists, Adams and Johnson gravitate toward complementary areas of interest. Adams prefers banks, healthcare, and tech; Johnson likes industrials, materials, and consumer staples. Each invests more than $1 million in this strategy. They also sit on the firm's 14-member investment committee. It ensures consistent execution of the strategy and generates its crucial "durable competitive advantage" analyses. Most of its members have at least 17 years of industry experience.

Parent Pillar ● Above Average | Tony Thomas 02/27/2023
Mairs & Power, founded in 1931, is traditional but pragmatic. It earns an Above Average Parent rating.

Succession planning is rightly a point of pride. Since 2017, chairman and CEO Mark Henneman, CIO Andy Adams, and a handful of portfolio managers have made orderly transitions into their current roles, and in mid-2022 Henneman gave four years' notice for his planned December 2026 retirement. A central investment committee helps ensure consistency of philosophy and execution throughout these changes.

While relatively staid in its structure and investment approach, Mairs & Power isn't stale. Though the investment team has traditionally focused on companies in the Upper Midwest (near the firm's St. Paul headquarters), Henneman and Adams have pressed the firm to look beyond its home region for investment opportunities and diversification. It has long kept its funds competitive on fees, but the firm has recently sought other ways to serve investors' interests, exploring tax-efficient exchange-traded funds with a Minnesota muni-bond ETF launch in 2021 and deploying tools to minimize capital gains distributions, a wise move for a firm with decades-old stakes in some companies. Its new venture capital arm can support local startups and keep an eye on prospects for its public funds. These efforts show that the 92-year-old firm is willing to adapt to changing times and client demands.

Price Pillar | Tony Thomas 03/06/2023
It's critical to evaluate expenses, as they come directly out of returns. Based on our assessment of the fund's People, Process, and Parent pillars in the context of these expenses, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Silver.

Morningstar 2023 Analyst Report: Mairs & Power Growth Fund (MPGFX)

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 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. 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, 2023

	1 Year	3 Years	5 Years	10 Years	20 Years	Since Inception
Mairs & Power Growth Fund(1)	27.70	9.22	14.31	10.15	9.74	11.36
Mairs & Power Balanced Fund(1)	13.39	4.50	8.69	6.83	7.43	9.36
Mairs & Power Small Cap Fund(1)	11.04	6.39	9.67	7.49	N/A	12.24
S&P 500 Total Return (TR) Index(2)	26.29	10.00	15.69	12.03	9.69	N/A
Composite Index(3)	17.76	4.62	10.12	8.16	7.35	N/A
S&P 600 Small Cap Total Return (TR) Index(4)	16.05	7.28	11.03	8.66	N/A	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 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.

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.

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.

For the 3-, 5-, and 10-year periods, the Growth Fund has a rating of 3 stars overall, 3 stars, 3 stars, and 3 stars out of 1299, 1299, 1192, and 886 large blend funds, respectively, as of 12/31/2023.

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 a 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 Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 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 star rating formula seems to give the most weight to 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 Growth Fund was rated against the following numbers of large blend funds over the following time periods: 1299 funds in the last three years, 1192 funds in the last five years, and 886 funds in the last 10 years. Past performance is no guarantee of future results.

The Morningstar Medalist Rating™ is the summary expression of Morningstar’s forward-looking analysis of investment strategies as offered via specific vehicles using a rating scale of Gold, Silver, Bronze, Neutral, and Negative. The Medalist Ratings indicate which investments Morningstar believes are likely to outperform a relevant index or peer group average on a risk-adjusted basis over time. Investment products are evaluated on three key pillars (People, Parent, and Process) which, when coupled with a fee assessment, forms the basis for Morningstar’s conviction in those products’ investment merits and determines the Medalist Rating they’re assigned. Pillar ratings take the form of Low, Below Average, Average, Above Average, and High. Pillars may be evaluated via an analyst’s qualitative assessment (either directly to a vehicle the analyst covers or indirectly when the pillar ratings of a covered vehicle are mapped to a related uncovered vehicle) or using algorithmic techniques. Vehicles are sorted by their expected performance into rating groups defined by their Morningstar Category and their active or passive status. When analysts directly cover a vehicle, they assign the three pillar ratings based on their qualitative assessment, subject to the oversight of the Analyst Rating Committee, and monitor and reevaluate them at least every 14 months. When the vehicles are covered either indirectly by analysts or by algorithm, the ratings are assigned monthly. For more detailed information about these ratings, including their methodology, please go to global.morningstar.com/managerdisclosures/.

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The stocks mentioned herein represent the following percentages of the total net assets of the Mairs & Power Growth Fund as of December 31, 2023: Alphabet Inc. 4.79%, Amazon.com 5.27%, Ecolab, Inc. 2.25%, Microsoft Corp. 9.85%, NVIDIA 4.02%, UnitedHealth Group 5.51%. 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.

The Russell 1000 Index is an index of approximately 1,000 of the largest companies in the U.S. equity market. It represents the top companies by market capitalization. It’s not possible to invest in an index.

The Russell 3000 Index is an index of approximately 3,000 of the largest companies in the U.S. equity market. It represents the top companies by market capitalization. It’s not possible to invest in an index.

Alpha is the measure of an active return on an investment, the performance of that investment compared with a suitable market index.