

Mairs & Power Small Cap MSCFX

A regionally focused strategy with broader appeal.

Morningstar's Take MSCFX

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	5.86	-1.95
2022	-13.93	2.31
2021	26.00	1.81
2020	8.78	-2.21
2019	21.13	-2.62

Data through 2-28-23

3-06-23 | by Tony Thomas

Mairs & Power Small Cap is handling some unexpected turnover about as well as it can, and its current team is ready to build upon past successes while continuing to focus on close-to-home opportunities. The mutual fund's sole share class retains a Morningstar Analyst Rating of Silver.

An apparent flurry of personnel moves here in recent years was mainly to manage a difficult situation. In August 2021, two years after taking over as lead manager from longtime lead Andy Adams, Al Steinkopf stepped back to deal with health problems. Adams then returned to the helm. He had a relatively new comanager to help him—Chris Strom—but with Adams also leading Mairs & Power Growth MPGFX, the team needed some veteran help. In December 2021, it hired Mike Marzolf, a seasoned investor who had some familiarity with Mairs & Power's style and reputation in Minnesota's Twin Cities. The plan

was for Steinkopf to gradually wind down his other duties over a few years, but he passed away in December 2022 after a short, rapid decline.

It's likely the changes aren't quite complete. When the time is right (perhaps in the next year or two), Adams will probably reduce his responsibilities and hand things over to Marzolf and Strom. This gradual transition should allow the three-person team to prepare for their new roles and carry on.

Throughout these changes, the managers have stuck to their unusual but successful approach. Its core principles are simple and appealing. The team likes profitable firms with durable competitive advantages—a fairly common expectation, to be sure, but one which the managers and others on Mairs & Power's 14-person investment committee take seriously. The twist is that the managers tend to invest mostly in Upper Midwest firms (which they define as Minnesota, Wisconsin, Illinois, Iowa, and the Dakotas). They've turned such local efforts to their advantage, building an otherwise diversified portfolio and making this a top-performing small-blend Morningstar Category strategy since its August 2011 inception.

Prudence and faithfulness to proven principles are bringing this strategy through a tough time.

Process Pillar ● Above Average | Tony Thomas 03/06/2023

A prudently tailored approach that leverages local contacts earns an Above Average Process rating.

The guiding principle of all Mairs & Power strategies is to buy and hold financially sound businesses with durable competitive advantages and above-average returns on equity. The managers here sensibly adjust this for small-cap companies, which might need to reinvest profits to grow market share or enhance their competitive position. To capture this kind of business spending,

the managers rely on returns on invested capital as a key metric.

Yet there's an unusual twist. The managers prefer companies based near their firm's St. Paul, Minnesota, office—or in the Upper Midwest more broadly. Looking locally can help them gain valuable perspective on firms that often aren't covered by Wall Street analysts—but such regionalism limits the opportunity set.

The managers take meaningful steps, however, to compensate for that narrow focus and reduce risk. Their portfolio is reasonably diversified by sector. They help mitigate liquidity concerns by keeping individual positions under 4% of assets each and owning less than 10% of any given company. They also closed the strategy to new investors from 2016 to 2018 to keep total assets at conservative, deployable levels. A 14-member investment committee (which includes these managers) ensures consistency by vetting prospects and evaluating firms according to Mairs & Power's long-standing principles.

The emphasis on Upper Midwest companies is more pronounced here than in any other Mairs & Power mutual fund. Firms based in Minnesota, Wisconsin, Illinois, Iowa, or the Dakotas held 75% of assets in December 2022 and were seven of the portfolio's top 10 holdings. The market's correction in 2022 gave the managers a chance to get an old favorite, Minnesota landscape equipment maker The Toro Co. TTC, in the first quarter; previously, the fund held it from its first portfolio in 2011 until late 2019.

Despite its geographic focus, the portfolio is diversified and distinctive. In December, it had holdings in 10 of the 11 sectors (with energy the only exception). It tends to have larger stakes in industrials, financials, and—at times—technology relative to the typical small-blend Morningstar

Category peer and the S&P SmallCap 600 prospectus benchmark. The small-cap market's breadth allows the managers stand out with many nonbenchmark picks: Only 13 of 46 equity holdings in December were in the index.

While the portfolio has a consistent small-cap orientation overall, the managers are willing to hold—and occasionally buy—mid-cap stocks. Constituents of the S&P SmallCap 600 typically top out around \$6 billion of market cap; by contrast, three holdings in this strategy's December portfolio had market caps greater than \$10 billion: the aforementioned Toro, plus Bio-Techne TECH and Graco GGG—both owned here since 2011.

Performance Pillar | Tony Thomas 03/06/2023

This fund's prospectus benchmark is the rarely used S&P SmallCap 600 Index, which includes profitability screens that have tended to make it tougher to beat over a full market cycle than the less-selective Russell 2000 Index category benchmark. That said, the fund's since-inception record against both is impressive. From August 2011 through February 2023, the 12.7% annualized gain of its sole share class outpaced the S&P index's 12.4% and the Russell 2000's 10.6%. With slightly lower volatility (as measured by standard deviation) and decent durability in most downturns, the fund also had an edge on risk-adjusted measures such as the Sharpe and Sortino ratios.

Recent performance has been as expected amid volatile markets. The fund held up a bit better than the S&P index and most peers in 2020's first-quarter plummet as well as in 2022's longer-lived decline—even without exposure to energy stocks, which don't often fit the managers' durable-growth expectations. Conversely, when less-profitable companies (also not this strategy's focus) led the charge in the last nine months of 2020, the fund understandably lagged. And in the short, sharp rally that opened 2023—another typically unfavorable market for this strategy—the fund was slow to join in, with Casey's General Stores CASY—a top-10 holding entering the year—sliding more than 7% through February after hitting all-time highs in December 2022.

People Pillar Above Average | Tony

Thomas 03/06/2023

Mairs & Power is effectively addressing a difficult situation with this strategy's team and helping it retain an Above Average People rating.

The strategy might have three lead managers in three years when all is done, but that's due to an unexpected challenge. Strategy architect Andy Adams handed lead manager duties to comanager Al Steinkopf in April 2019, but health issues forced Steinkopf to cede control back to Adams in August 2021. (Both remained comanagers on the strategy after stepping back.) The St. Paul-based firm added help amidst these changes, appointing small-cap analyst Chris Strom as comanager in January 2021 and hiring veteran Twin Cities investor Mike Marzolf in December 2021. Steinkopf's condition worsened quicker than anticipated, though, and he passed away in December 2022.

Adams will shepherd the strategy for the foreseeable future. But as Mairs & Power's CIO and head Mairs & Power Growth MPGFX, he's again looking to lighten his load. If Marzolf's acclimation goes well (and it appears it is), Adams could resume a reduced role and hand duties to Marzolf and Strom. Adams isn't the only steadying influence here. The managers sit on a 14-member investment committee that includes industry veterans and more-recent hires to address retirements and build out its capabilities. It also generates the durable competitive advantage analyses central to the process here.

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 Small Cap Fund (MSCFX)

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

	<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⁽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 U.S. The index is weighted according to market capitalization and covers about 3-4% of the total market for equities in the United States. 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.

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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 publicly traded.

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For the 3-, 5-, and 10-year periods, the Small Cap Fund has a rating of 3 stars overall, 3 stars, 2 stars, and 3 stars out of 596, 596, 555, and 389 small blend funds, respectively, as of 12/31/2023.

The Morningstar RatingTM 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 Small Cap Fund was rated against the following numbers of small blend funds over the following time periods: 596 funds in the last three years, 555 funds in the last five years, and 389 funds in the last 10 years. Past performance is no guarantee of future results.

The Morningstar Medalist RatingTM 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 Small Cap Fund as of December 31, 2023: Bio-Techne 2.28%, Casey’s General Stores 3.49%, Graco 0.73%, Toro Company 2.55%. 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 2000 Index is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. It is not possible to invest directly in an index.

Sharpe ratio is a measure that indicates the average return minus the risk-free return divided by the standard deviation of return on an investment.

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.

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