JUNE 30, 2024

Small Cap Fund

SECOND QUARTER RESULTS

MAIRS & POWER

Focused Long-term Investing

Market Overview | Second Quarter 2024

The Federal Reserve (Fed) continues to make progress in its effort to balance economic growth with inflation. However, the stock market has been anything but balanced, with a handful of stocks generating nearly all the market returns so far this year. Though the S&P 500 ended the quarter on another up note, the index's overall positive performance was again driven by a narrow group of stocks. So far in 2024, 64% of the market's return can be attributed to seven names (Alphabet, Amazon, Apple, Eli Lilly, Meta, Microsoft, and Nvidia). At the same time, 75% of S&P 500 stocks are underperforming the index, 38% have had negative returns, and only two sectors out of 11 outperformed the index (Technology and Communication Services).

Looking at the indices for the second quarter, the S&P 500 Total Return (TR) was 4.28% and is 15.29% year-to-date. The Dow Jones Industrial Average Total Return (TR) was -1.27% in the quarter and 4.79% year-to-date, and the Bloomberg U.S. Government/Credit Bond Index return was 0.05% in the second quarter and -0.68% year-to-date.

Several key economic indicators pointed to a slowdown in the second quarter. Job growth softened with the unemployment rate rising to 4.1% in June, up from 3.6% a year ago at this time. Additionally, job growth slowed, averaging 177,000 new jobs per month in Q2, down from an average of 267,000 in Q1. In late June, the U.S. Labor Department reported that the total number of Americans collecting jobless benefits reached the highest level in more than two years. Wage inflation, which had been stubbornly high, is also slowing. In June, wages were up 3.9% from a year ago, and that compares with a 4.7% rate of increase at this time last year.

As job growth has slowed, consumer confidence has also declined, leading to weakened retail sales growth. In June, retail sales increased to an annual rate of only 2.3%, down from a 5.5% growth rate in December. Existing home sales also declined again in the second quarter after improving a bit earlier in the year. The National Association of Realtors reported that on an annualized basis, sales of existing homes fell to 4.1 million in May. That compares to a rate of 5.1 million two years ago and a peak of 6.7 million back in 2021 when mortgage rates were low.

Future Outlook

Despite economic growth slowing in the second quarter, there are reasons to feel cautiously optimistic. The Fed's preferred measure of inflation, the personal consumption expenditures price index (PCE), was up 2.6% in May from a year earlier compared to a year-over-year increase of 3.2% at this time last year. That's the direction the central bank would like to see sustained and increases the likelihood of the central bank cutting rates in the coming months.

The Fed's mandate is to balance employment and inflation. An economy in equilibrium creates enough new jobs that keep incomes, spending, and investment growing without causing inflation to accelerate. This can lead to a broad economic expansion into the future.

Rate reductions also could bring greater balance to the overall market. This year, the biggest companies have posted the largest earnings growth, a key driver of market performance. Estimates for the S&P 500 continue to be revised upward for 2025 and 2026, boosted by the megacap stocks mentioned earlier. However, earnings for small and midsize companies have been less robust. Earnings estimates for the S&P Small Cap 600 Index in 2025 and 2026 have seen consistent downward revisions. That's because most smaller companies need to borrow to fund their growth. Unlike the bigger businesses, they do not have large cash reserves or enjoy high levels of cash flow. Current high interest rates have elevated borrowing costs, cutting into smaller companies' earnings. This helps explain the weaker market performance of small cap stocks. Interest rate cuts could boost earnings growth for smaller companies, leading to better performance for all stocks and sectors.

A key aspect of our job as investment managers is balancing potential return against potential risk. We do this in several ways, but it is critical to exhibit valuation discipline that trims positions when they become expensive and adds to those positions when valuations become attractive. At first glance the stock market appears to be overvalued compared to the 10-year average. However, a closer look shows that much of this overvaluation is due to the AI-fueled technology boom surrounding the largest 10 companies. The remaining 490 companies trade at a much more reasonable valuation, right in line with the historical average. While we remain positive on the long-term prospects for AI, our valuation discipline is helping us find good opportunities in other parts of the market. We will continue to examine opportunities to invest in well-run companies exhibiting durable competitive advantages that we believe are attractively priced.

Performance Review

During the first half of 2024, the Mairs & Power Small Cap Fund is up 2.20%, outperforming the S&P Small Cap 600 Total Return (TR) benchmark, which is down 0.72%, and slightly underperforming its peer group, the Morningstar U.S. Fund Small Blend, which is up 2.25%.

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 0.94%.

We are pleased with the relative performance during the period. Stock selection was positive, but most of the relative outperformance was driven by sector allocation. At the sector level, positive contributors to relative performance included Technology, Consumer Staples, Industrials, Consumer Discretionary, Energy, and Utilities, partially offset by negative relative returns from Healthcare, Materials, Financials, and Communications Services sectors.

The largest contributions to Fund performance during the period included Casey's General Stores (CASY), a convenience store operator that is gaining market share in part by leveraging data to drive efficiency and structurally higher margins in their business. Another positive contributor was MedPace Holdings (MEDP), a contract research organization that continues to buck the weak trends in healthcare venture funding, which is showing evidence of its alignment with successful partners and development projects. Other positive contributions to relative performance included Minnesota-based Piper Sandler (PIPR), a mid-market investment bank that provides advisory services for mergers and acquisitions, and the underwriting of debt and equity, as well as Clearfield (CLFD), a Minnesota-based provider of fiber optic access and management equipment that provides significant labor savings during broadband installations. Also contributing to favorable relative returns was nVent (NVT), a maker of enclosures and liquid cooling systems which are seeing increased demand for cloud data center solutions.

Detracting from relative performance during the period was CVRx (CVRX), a Minnesota-based maker of neuromodulation solutions for patients with cardiovascular diseases, that experienced some turbulence in their direct sales force after a management change. Inspire Medical (INSP), a provider of a minimally invasive neural modulation device to treat obstructive sleep apnea, also detracted from relative performance, as did Workiva (WK), with the software company's peer group beginning to discuss slowing close rates on sales and Workiva's ESG solutions may be feeling some of the recent ESG resistance in the press. Also detracting from relative performance in the first half were MGP Ingredients (MGPI), a provider of branded spirits and related distilling solutions, that was weak due to a spirits industry inventory cycle, and Glacier Bancorp (GBCI), a regional bank impacted by volatile interest rates and broader concerns regarding commercial real estate trends.

In our conversations with companies, we are encouraged by relatively healthy commentary about the inflation pressures on materials and labor continuing to ease, inventory levels returning to normal levels, and a relatively stable demand environment. These easing conditions and the stabilization in interest rate levels improve the operating visibility for small companies and make it easier to plan and execute their growth strategies.

Notable purchases during the period included MGP Ingredients, John Bean Technologies (JBT), Knife River (KNF), and Hub Group (HUBG) where we view valuations as favorable. We also added to Tennent Co. (TNC) based on increased conviction related to their autonomous strategy, and Clearfield, due to increased conviction that the inventory cycle that has held back growth is coming to an end.

Notable trims during the first half included our regional bank holdings Wintrust (WTFC), QCR Holdings (QCRH), Associated Bancorp (ASB), Cullen-Frost (CFR), Glacier Bancorp, and Alerus (ALRS). Valuations have rebounded somewhat, but we are guarded on potential rising credit expenses related to commercial real estate lending. AZEK Company (AZEK) and Altair Engineering were trimmed on recent strength in shares and balanced valuations. We exited positions in Physicians Realty Trust (DOC) and Catalent (CTLT) after a merger and sale respectively, as well as the Marcus (MCS) position, where we increasingly questioned the company's end markets, as both the theater and hotel industries face secular challenges. No new names were added to the portfolio during the period.

Strategists continue to debate whether the current market concentration in a few stocks will broaden, potentially bringing attention to other areas like small cap stocks. When comparing historic performance of small caps to large caps, the two have exchanged leadership roles several times, often around turns in economic cycles. The latest run in large caps is 13 years old. Only time will tell when the next period of small cap outperformance will begin, but we believe these conditions favor our investment philosophy and process.

Small cap stocks currently trade at a 40% discount to the broader market as measured by the S&P 500, a 13% discount to the S&P 500 Equal-Weighted Index, and at a 15% discount to small cap stocks' long-term average as measured by the S&P Small Cap 600. This is despite the average of analysts' earnings growth estimates for small cap companies outpacing large cap companies for the next several years. We continue to see great opportunities to invest in small companies with above-average growth prospects that are trading at favorable valuations.

Mike C. Marzolf	Andrew R. Adams	Chris D. Strom
Lead Manager	Co-Manager	Co-Manager
left	*middle*	*right*

Mairs & Power Small Cap Fund Contributors

Year-to-Date (%) 12/31/2023—6/30/2024

LARGEST CONTRIBUTORS TO RELATIVE PERFORMANCE		LARGEST DETRACTORS FROM RELATIVE PERFORMANCE	
Casey's General Stores, Inc.	39.29	CVRx, Inc.	-61.86
Medpace Holdings, Inc.	34.36	Inspire Medical Systems, Inc.	-34.21
Piper Sandler Companies	33.12	Workiva Inc. Class A	-28.11
Clearfield, Inc.	32.60	MGP Ingredients, Inc.	-24.26
nVent Electric PLC	30.42	Glacier Bancorp, Inc.	-8.92

Largest relative contributors and detractors are securities that were selected based on their contribution to the portfolio as of June 30, 2024. 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 Small Cap Fund as of June 30, 2024: Alerus Financial Group 0.61%, Alphabet Inc. 0.00%, Altair Engineering Inc. 4.05%, Amazon.com 0.00%, Apple Inc. 0.00%, Associated Banc-Corp 2.48%, AZEK Company Inc. 3.49%, Casey's General Stores Inc. 4.48%, Catalent Inc. 0.00%, Clearfield 3.41%, Cullen-Frost Bankers Inc. 2.78%, CVRx Inc. 0.53%, Eli Lilly & Co. 0.00%, Glacier Bancorp Inc. 2.30%, Hub Group Inc. 3.98%, Inspire Medical Systems Inc. 2.09%, John Bean Technologies Corp. 3.68%, Knife River Corp. 2.58%, Marcus Corp. 0.00%, Medpace Holdings Inc. 3.75%, Meta Platforms Inc. 0.00%, Microsoft Corp. 0.00%, MGP Ingredients Inc. 3.06%, NVIDIA Corp. 0.00%, nVent Electric PLC 3.36%, Physicians Realty Trust 0.00%, QCR Holdings Inc. 2.46%, Piper Sandler Companies 3.92%, Tennant Co. 2.62%, Wintrust Financial Corp. 3.13%, Workiva Inc. 2.37%.

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 6/30/2024

Fund/Index	1 YR	3 YR	5 YR	10 YR	SINCE INC
Mairs & Power Small Cap Fund[1]	**6.62**	**1.09**	**6.93**	**7.14**	**11.93**
S&P Small Cap 600 TR Index[2]	8.66	-0.26	8.06	8.24	11.61
Russell 2000 TR Index[3]	10.06	-2.58	6.94	7.00	10.24
Morningstar Small Blend[4]	10.45	0.77	7.73	6.53	—
Expense Ratio 0.94%					Inception 8/11/2011

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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] S&P Small Cap 600 TR Index is an index of small-company stocks managed by Standard and 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 3-4% of the total market for equities in the U.S. 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 in the index.

[3] Russell 2000 TR Index is a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index.

[4] Morningstar Small Blend Category, as defined by Morningstar are stocks in the bottom 10% of the capitalization of the U.S. equity market which are defined as small cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. Earnings growth is the change in an entity's reported net income over a period of time.

Cash flow is the amount of cash that comes in and goes out of a company.

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 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 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.

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.

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 Small Cap Fund is 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 mid-cap 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 Fund may invest in initial public offerings by small cap companies, which can involve greater risks than investments in companies which are already publicly traded.

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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