DECEMBER 31, 2023

Small Cap 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.

Performance Review

During 2023, the Mairs & Power Small Cap Fund gained 11.04%, while its S&P Small Cap 600 TR benchmark was up 16.05%, and the Morningstar U.S. Fund Small Blend was up by 16.03%.

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 0.92%.

Relative performance ebbed and flowed throughout the year, with increased volatility in several sectors. Financials were buffeted by sharply higher interest rates earlier in the year, recovering some of this performance later in the year. Industrials were impacted by supply chain dynamics and inventory destocking, while the Healthcare sector volatility was up on both a sharp decline in the funding environment for new products, and the perceived threats from weight loss drugs. Lastly, Consumer Discretionary stocks surged, aided by the tailwinds of easing inflation, and declines in both interest rates and energy costs.

Year-to-date relative underperformance versus the benchmark was driven primarily by strength in the Consumer Discretionary sector where the Fund has a significant underweight position. As is typically the case when interest rates and energy costs are easing, consumer sectors perform well, but often with leadership changes from one point in the cycle to another. Given our quest to identify durable competitive advantages in the companies in which we invest, and our through-cycle investing philosophy, we find these advantages and leadership to be more durable in the Industrials, Technology, Healthcare and Financials sectors, where the Fund is overweight. In addition to Consumer Discretionary sector underperformance, the Fund underperformed in Technology, Financials, and Utilities sectors, while the absence of Energy stocks in the Fund was a modest positive. Relative weakness in these sectors was partially offset by outperformance in the Industrials, Healthcare, and Real Estate sectors.

The Financials sector overall showed strength during the fourth quarter and was only bested by Consumer Discretionary names. The deposit funding pressures earlier in the year were driven by rising interest rates paid by banks, which pressured margins has eased somewhat, with the recent decline in treasury rates. While being mindful of these pressures which we believe to be temporary, as well as the potential for credit pressures down the road, we believe the six banks owned in the Fund have a track record for weathering these types of cycles and view the valuations of the stocks as attractive, even after the recent strength. As is a hallmark of our process, this conviction resulted in adding to several positions in the Financials sector during the selloff earlier in the year at favorable valuations.

Industrials companies have benefited from price taking and recent easing of inflation as supply chains have loosened up, while ebbing backlogs and moderating demand have created a broad inventory destocking cycle and dampened the pace of new orders. We believe most of the price taking will hold in the coming years, importantly as inventory normalizes and new order demand rebounds. Industrial companies broadly are likely to benefit from significant multi-year state and federal government infrastructure projects which will likely playout in the coming decade. Our conviction in our Industrials holdings stems from our research and fieldwork, including many company visits, and which suggests strong market share gains, growth, and margin improvements in the coming years.

Healthcare stocks overall outperformed the index, despite several factors contributing to volatility within the sector. First, financial conditions, specifically higher interest rates, have curtailed new venture capital funding in healthcare and life sciences, which has impacted the pace of development for new drugs and medical devices, and in turn effecting the order rates for certain products related to research. Second, China—a significant end market for these same research-oriented products—has also tapped the brakes on research spending, in an effort to mend other areas of their economy. Third, recent significant excitement around repurposing diabetes drugs to treat obesity and other diseases has fueled fear of disruption in nearly every area of healthcare and life sciences which have been focused on the symptoms of obesity. This volatility may continue as the safety and efficacy of these treatments is studied, as well as the reimbursement policies.

Technology stocks broadly performed well during 2023, although returns varied widely. Exposure to data analysis, and specifically artificial intelligence (AI) was rewarded in semiconductors and software, while inventory destocking in end markets like PCs, cell phones, and communications equipment drove disappointing fundamentals, and stock underperformance. We see the advent of AI as being a secular tailwind for the economy, as well as for the enabling “arms dealers” which we discussed in our previous commentaries. We believe the near-term headwinds driven by inventory destocking are temporary and have seen these patterns sharply reverse in prior cycles, which supports our positive long-term view on the names in the portfolio that have been affected by this cycle and view relative valuations as favorable.

Looking at individual stocks, year-to-date relative underperformance was driven in part by several stocks, including Clearfield (CLFD), a Minnesota-based supplier of fiber optic access and management products used in broadband infrastructure installations that is working through a buildup in inventory, and some new uncertainty pertaining to the timing of a multi-year Federal broadband stimulus spending initiative. Gentherm (THRM), a Michigan-based provider of thermal management technologies for heating and cooling, and temperature control devices for various industries, has faced some slowing order patterns pertaining to automotive production rates and EV mix. Inspire (INSP), a medical technology device company based in Minnesota that offers minimally invasive implants to address obstructive sleep apnea which has experienced volatility related to fears of substitution risk from GLP-1 weight loss drugs. Texas-based Cullen/Frost (CFR), also contributed to underperformance during the period, driven by margin pressures due to rising deposit costs. Lastly, Jamf (JAMF), a Minnesota-based provider of enterprise software for managing and securing Apple devices, has seen end market growth slow post pandemic.

Relative outperformance in the period came from The AZEK Company (AZEK) in Industrials, a provider of synthetic building products to the residential and commercial construction industries. The company is aided by the ongoing secular shift to synthetic deck, railing, and exteriors from wood, and is navigating the post-COVID inventory destocking quite well.

Mike C. Marzolf Lead Manager | **Andrew R. Adams** Co-Manager | **Chris D. Strom** Co-Manager

Altair Engineering (ALTR), a provider of software for simulation, high performance computing, and data analytics has performed well, in part due to their proximity to generative design, and the related halo effect from AI, and has shown growth, share gains, and margin expansion. nVent (NVT) in Industrials, is a manufacturer of electrical enclosures, fasteners, and thermal management products benefiting from high demand in data center markets. AAR Corp. (AIR), a supplier of parts and maintenance/repair services to the airline industry, is benefiting from a rebound in air miles traveled, and driving margins higher for the company.

During the fourth quarter, we sold out of our position in Sleep Number (SNBR), due to execution issues, high leverage, and a lack of confidence in management. We also sold our position in Digi International (DGII) based on lower conviction in the pace of organic growth and product mix, the trajectory of margins, and the cadence of acquisitions contributing to rising debt levels and interest expense, which has been excluded from the company's non-GAAP reporting which we view as unconventional.

We added several new positions to the Fund during 2023, including Piper Sandler (PIPR) which as discussed in a previous letter is a leading mid-market investment bank based in Minneapolis, MN. Piper has a strong franchise in investment banking, with particular strength in mergers and acquisition advisory services in which it is gaining market share, and now makes up over half of the company's revenue. The company's diversity of end markets drives through-cycle profitability, unlike some peers or previous eras in investment banking. Piper Sandler has a seasoned leadership team, strong franchises, and an attractive stock valuation, as well as being a counterbalance to other bank holdings which are far more interest rate sensitive.

We also added Knife River (KNF), a provider of aggregates-based construction materials and contracting services based in Bismark, ND. Knife River is benefiting from the physical proximity of operations to construction activity, making the company both more competitive and more profitable. Knife River's CEO is a company veteran with a track record of success in driving revenue and margins in the Pacific Northwest region, which will serve as a template for the company in other regions. We view Knife River as ideally positioned to address the multiple significant state and federal infrastructure stimulus programs which span many years, and view Knife River's stock valuation as favorable.

Our conversations with large and small companies continue to suggest the supply shocks of 2022 continue to ease, with prices and inventory levels normalizing, which is helping the inflation statistics monitored by the Federal Reserve. The stubborn exception to this trend is the demand and cost of labor, which remains elevated. As these conditions normalize, businesses have more confidence in their long-term planning, which would be welcome after a long spell of low visibility. As long-term investors, and leveraging our experience through many prior cycles, we believe these challenges are temporary, and view the related market volatility as an opportunity to invest in great companies trading at significantly lower valuations.

Currently, small cap companies are trading at a discount, which is often the case during this stage of an economic cycle when excess inventories are being reduced and inflation pressures begin to wane, which impacts pricing power. We have seen this happen before, and we believe our long-term approach is well-suited for the current conditions where many high-quality companies' shares are trading at a discount.

Mairs & Power Small Cap Fund Contributors

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

LARGEST CONTRIBUTORS TO RELATIVE PERFORMANCE		LARGEST DETRACTORS FROM RELATIVE PERFORMANCE	
AZEK Co., Inc. Class A	88.24	Clearfield, Inc.	-69.11
Altair Engineering Inc. Class A	85.07	Gentherm Inc.	-19.80
Entegris, Inc.	83.53	Inspire Medical Systems, Inc.	-19.24
nVent Electric PLC	55.98	Cullen/Frost Bankers, Inc.	-16.06
AAR Corporation	38.98	Jamf Holding Corporation	-15.21

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 Small Cap Fund as of December 31, 2023: AAR Corp. 3.42%, Altair Engineering Inc. 4.01%, AZEK Company Inc. 4.36%, Clearfield 1.98%, Cullen Frost Bankers Inc. 3.27%, Digi International 0.00%, Entegris Inc. 2.69%, Gentherm Inc. 2.17%, Inspire Medical Systems Inc. 3.11%, Jamf Holdings Corp. 2.55%, Knife River Corp. 1.64%, nVent Electric PLC 3.33%, Piper Sandler Companies 2.71%, Sleep Number Corp. 0.00%.

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	3 YR	5 YR	10 YR	SINCE INC
Mairs & Power Small Cap Fund[1]	**11.04**	**6.39**	**9.67**	**7.49**	**12.24**
S&P Small Cap 600 TR Index[2]	16.05	7.28	11.03	8.66	12.17
Russell 2000 TR Index[3]	16.93	2.22	9.97	7.16	10.52
Morningstar Small Blend[4]	16.03	6.33	10.44	6.69	—

Expense Ratio 0.92% 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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