

Mairs & Power Small Cap MSCFX

There's good reason to remain confident about this strategy.

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	-4.71	1.96
2021	26.00	1.81
2020	8.78	-2.21
2019	21.13	-2.62
2018	-6.91	5.81

Data through 2-28-22

3-12-22 | by Tony Thomas

Mairs & Power Small Cap is still on track despite a few recent personnel moves. Its sole share class continues to earn a Morningstar Analyst Rating of Silver.

An apparent flurry of lead-manager changes since 2019 has occurred with good reason. Andy Adams, who helped launch this mutual fund in 2011, gradually stepped back to make time for his duties as the St. Paul-based firm's CIO and leader of its flagship, Mairs & Power Growth MPMGX. He handed the reins to comanager Al Steinkopf in April 2019 but stayed on in a reduced role. Steinkopf encountered health issues, however, and in August 2021 ceded control back to Adams. But Adams isn't swamped. Steinkopf still contributes; former small-cap analyst Chris Strom is acclimating well to the comanager duties he picked up in January 2021; and late-2021 hire Mike Marzolf shores up the team with more than three decades of experience centered on the Twin Cities.

That focus on Minnesota is important. All Mairs & Power strategies try to buy and hold securities from financially healthy businesses with durable competitive advantages, but they also favor companies from the Upper Midwest (which the firm defines as Minnesota, Wisconsin, Illinois, Iowa, and the Dakotas). Among the firm's three mutual funds, the regional tilt is most pronounced here: Companies from the region hold more than 80% of this strategy's assets. The managers can get valuable insights when looking locally, but they take care to build an otherwise diverse portfolio by sector and industry.

Adams and his colleagues have proved the merits of this approach. Even though they've chosen a selective, hard-to-beat benchmark (the S&P SmallCap 600 Index) the fund's since-inception return through February 2022 topped the index and outpaced nearly all of its small-blend Morningstar Category peers. A decent trim of the management fee in May 2021 (to 0.80% from 0.90%) should help it maintain a long-term edge. Regionalism and all, this is a solid small-blend option.

Process Pillar Above Average | Tony Thomas 03/11/2022

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. Thus, the portfolio clearly tilts toward Upper Midwest firms. Access to local businesses is valuable because most small caps lack analyst coverage, 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 more than 80% of assets in December 2021 and were eight of the portfolio's top 10 holdings. All six of the strategy's new purchases in 2021 hailed from the region, led by Illinois-based building products supplier The AZEK Company AZEK.

Despite its geographic focus, the portfolio is diversified and distinctive in many ways. It has holdings in 10 of the 11 sectors, and in December it was heaviest in technology and industrials and lightest in real estate, consumer cyclicals, and energy relative to its typical small-blend category peer and the S&P SmallCap 600 Index. The small-cap market's breadth allows the managers stand out with many nonbenchmark holdings: Only 15 of 48 equity holdings in December were index constituents.

The portfolio's rising tech stake in recent years has come at the expense of more-cyclical sectors. For example, the portfolio ranged into energy stocks leading up to the last peak in energy prices in 2014, but it has had no such holdings since early 2021. Tech has long been an important sector here, but its weighting had dropped to about 9% in late 2019 before surging back to 22% by year-end 2021 (versus 13% for the index) on purchases such as semiconductor equipment maker CMC Materials CCMP, first bought in late 2020 and the portfolio's top holding just one year later.

Performance Pillar | Tony Thomas 03/11/2022

This fund measures itself against a rarely used prospectus benchmark, the S&P SmallCap 600 Index, which includes profitability screens that could 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 is solid. From August 2011 through February 2022, its sole share class gained 14.5% annualized, topping the S&P index's 14.1%, the Russell 2000 Index's 12.3%, and the typical small-blend peer's 11.3%. 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. The fund's sharp 39.1% drop from Feb. 20 through March 23, 2020, was still a bit better than the index's 41.3% decline. Less-profitable companies (not this fund's focus) led much of the ensuing rally through the end of 2020, so the fund lagged the index by more than 10 percentage points. A strong 26% gain in 2021 mostly kept pace with the index but looked middling versus peers because the portfolio had a much heavier weight, on average, in micro-cap stocks (26% versus 2%), a segment that struggled relative to larger-cap peers. The fund also trailed about half of its cohort in 2022 through March 8, in part because the managers had no exposure to energy stocks, many of which surged following Russia's invasion of Ukraine.

People Pillar  Above Average | Tony Thomas 03/11/2022

With its longtime leader back at the helm and new help coming aboard, this strategy retains its Above Average People rating.

Andy Adams is back in the lead role, and that's reassuring. He is this strategy's chief architect and led the mutual fund from its 2011 inception until he handed the reins to comanager Al Steinkopf in April 2019. Health issues forced Steinkopf to cede control back to Adams in August 2021. Adams has plenty to do—he also leads Mairs & Power Growth MPGFX—but he has help. In addition to Steinkopf (who remains a comanager), he draws upon comanagers Chris Strom and December 2021 hire Mike Marzolf. A 31-year industry veteran with local connections, Marzolf was most recently a tech, financials, and consumer analyst at another Twin Cities shop, Sit Investment Associates. He also gained small- and mid-cap equity experience from nearby Ameriprise. Marzolf is a possible successor to Adams in the next few years if all goes well, though for now it's important that Adams remains involved.

The team's other resources also assuage concerns about these moves. The managers are part of a 14-member investment committee that helps ensure consistent execution across the firm's offerings. It includes industry veterans as well as more-recent hires to address retirements and build out its capabilities. The group also generates the durable competitive advantage analyses central to the process here.

Parent Pillar  Above Average | Tony Thomas 03/16/2021

The conservatively run Mairs & Power is showing it can adapt, earning it an Above Average Parent rating.

The small St. Paul, Minnesota-based shop, founded in 1931, has welcomed a new generation of leaders in recent years. All moves were orderly. When former chairman and CEO Jon Theobald retired at the end of 2017, then-president and CIO Mark Henneman took his place, and Rob Mairs became president. As Henneman settled into his roles, he gradually stepped back from the flagship Mairs & Power Growth, handing the baton to his successor as CIO, Andy Adams. Henneman and

Adams have since backfilled by promoting new comanagers from the firm's investment committee. Each of the firm's three mutual funds (Growth, Balanced, and Small Cap) have had well-managed transitions following this pattern since 2018. The movement likely neared its end when Henneman officially left the Growth fund in January 2021.

Meanwhile, the firm has stuck to its principles but is open to new ideas. Although it prefers to invest in companies based in the Upper Midwest, the firm has increasingly looked beyond the region and diversified its holdings. The firm also dipped a toe into exchange-traded funds in March 2021 with the launch of a Minnesota muni-bond ETF. These aren't big changes, but they show the firm is adapting—in its typically careful way—to broader industry pressures.

Price Pillar | Tony Thomas 03/11/2022

It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's middle quintile. That's not great, but based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we think this share class will still be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Silver.

Morningstar 2022 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, 2022, Mairs & Power Growth Fund, Mairs & Power Balanced Fund, and Mairs & Power Small Cap Fund have annual expense ratios of 0.61%, 0.69%, and 0.95%, 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 September 30, 2022

	<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⁾	-17.25	6.97	8.02	10.54	9.79	11.07
Mairs & Power Balanced Fund⁽¹⁾	-14.31	3.32	4.96	6.95	7.84	9.23
Mairs & Power Small Cap Fund⁽¹⁾	-16.02	5.11	4.24	9.26	N/A	11.71
S&P 500 Total Return (TR) Index⁽²⁾	-15.47	8.16	9.24	11.70	9.84	N/A
Composite Index⁽³⁾	-14.98	3.89	5.79	7.56	7.42	N/A
S&P 600 Small Cap Total Return (TR) Index⁽⁴⁾	-18.83	5.48	4.84	10.09	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.

As of 9/30/2022, the Small Cap Fund has a Morningstar Rating of 4 stars Overall and 3 stars, 3 stars, and 4 stars for the 3-, 5- and 10-year periods among 575, 575, 534, and 353 small blend 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 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 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 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. Copyright 2022, Morningstar, Inc. All Rights Reserved. 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.

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The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. A Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's conviction in a fund's prospects for outperformance. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its 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 September 30, 2022: The AZEK Company 1.67%, CMC Materials Inc. now Entegris Inc. 1.94%. 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.

Forside Fund Services, LLC is the Distributor for the Mairs & Power Funds.