SEPTEMBER 30, 2022

Small Cap Fund

THIRD QUARTER RESULTS

MAIRS & POWER

Focused Long-term Investing

Market Overview | Third Quarter 2022

Market stress and volatility continued through the third quarter of 2022, as supply chain frictions, inflation, geopolitical tensions, and rising interest rates added to economic headwinds and reined in investor sentiment.

The Federal Reserve (The Fed) continues to aggressively raise interest rates to slow the economy and reduce inflation. The recent consensus among the Fed governors is that the Federal Funds rate will likely rise to 4.625% in 2023, with the intention of keeping rates higher for longer to get inflation under control.

The normalization process currently underway likely won't be smooth. We continue to watch mortgage rates, which rose roughly 1.0% during the third quarter. Nearly half of this increase was during the last week of September. As of September 30, the average rate for a 30-year fixed mortgage was 7.06%, which compares to 3.01% one year ago, and an average rate of 7.76% during the previous 50 years. The Fed's inflation fighting tool of raising interest rates is a blunt instrument, and a powerful one, and it will likely slow the rate of borrowing by businesses and consumers. Housing and all the things associated with owning a home are a meaningful portion of the economy, and the slowing housing environment will likely slow the economy overall.

Still, while GDP has turned negative, other economic indicators remain upbeat. While ISM indicators have slowed, they remain at levels still signaling modest economic growth.

Household spending rose 0.4% in August after a 0.2% drop in July. While consumer confidence data fell earlier in the year, a drop in oil prices helped sentiment rise in August to its highest level since May. After reaching $5 per gallon in mid-June, the average price of regular gasoline was about $3.80 a gallon nationwide in September. The labor market also remains generally tight: The August unemployment rate stayed low at 3.7%, and job growth continued at a steady pace, though there was a decrease in job openings in September. Even with the economy softening, the initial claims for unemployment stayed low, implying that companies are shying away from letting employees go. In fact, the unemployment rate is less likely to move much higher due to the current labor shortages.

GDP is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

The ISM manufacturing index or PMI, measures the change in production levels across the U.S. economy from month to month.

Past performance is not a guarantee of future results.

Despite a mix of positive and negative indicators, the market continues to express profound nervousness about the economy's current and near-term prospects. In the first three quarters of 2022, the S&P 500 Total Return (TR) declined 23.87%. A rally from the June 13 lows has reversed, and those lows are being retested as investors prepare for third quarter earnings reports. In the third quarter, the S&P 500 TR declined 4.88%, the Dow Jones Industrial Average TR fell 6.17%, and the Bloomberg U.S. Government/ Credit Bond Index dropped 4.56%.

Future Outlook

We believe that we're entering a transition from a period of abnormally low interest rates to something like "the old normal," when the Federal Funds rate was commonly between 3-4 percent. While this transition has caused the market to sell off this year, the long-term prospects for investors and for the economy in general remain positive. The market, the economy, and corporate profits can grow nicely even with the Fed Funds Rate between 3-4 percent. Rates were generally that "high" during the 1990s and the first decade of this century, which was also a period of generally positive economic performance. Readjusting to that old normal has caused much of this year's market volatility, since the market's valuation reflected the low interest rates of the past decade.

It's also worth noting that corporate earnings haven't fallen. While the rate of earnings growth has come down, the current consensus for earnings growth is still 7.4% for this year and 7.7% in 2023.

Already, supply chains are beginning to heal, shipping costs have fallen from peak levels, and certain components of production are becoming more available, though labor costs remain elevated. Ironically, just as companies are beginning to deliver on high purchase order backlogs, demand is beginning to ebb, in part due to rising interest rates. This combination of rebounding supply and ebbing demand is not surprising. It typically marks the completion of an inventory cycle, and it is often followed by falling prices.

This normalization process could result in volatile earnings reports in the near term, and it could even result in a brief recession. But in the longer term, we believe it should prove to be a positive for business. With lower inflation and the end of interest rate hikes, businesses will likely regain confidence in the economic outlook. With confidence comes investments in capital and labor, and a new expansion cycle begins.

In short, the Fed's actions and the rebalancing of supply chains and inventories are working to slow the economy and tamp down inflation. This is a process that will take time. But keeping the entire business cycle in focus provides perspective for appreciating that while the process is uneven, disruptive, and even painful, it is normal, and has happened many times before.

Performance Review

Year-to-date, the Mairs & Power Small Cap Fund is down 21.54%, while its S&P Small Cap 600 TR benchmark fell 23.16% and the Morningstar U.S. Fund Small Blend dropped 23.27%. In the third quarter, the Fund fell 3.43%, the S&P Small Cap 600 Total Return was down 5.20%, and the Morningstar U.S. Fund Small Blend declined 4.01%.

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 0.95%.

The absence of Energy holdings was less of a headwind for Fund performance during the third quarter. We continue to believe that the Energy sector, which is currently dominated by fossil fuels, will experience long-term secular decline as advancements in transportation, as well as battery and storage technologies, make the transition to renewable sources of energy increasingly compelling, both financially and environmentally. The combination of the industry's underinvestment and recent geopolitical tensions have caused fossil fuel supplies to fall short of demand, driving up the prices of both petroleum commodities and Energy stocks. We believe these conditions are temporary and we will continue to steer clear of the sector.

Positive relative performance in Consumer Staples and Financial Services have contributed to the Fund's year-to-date outperformance. Individual positions that significantly helped the Fund's performance year-to-date included Technology holding, Digi International (DGII), a Minnesota-based supplier of Internet of Things and other connectivity products that is experiencing improved demand, margins, and revenue visibility. In Consumer Staples, MGP Ingredients (MGPI), a Kansas-based supplier of distillery products and branded spirits, is seeing improving fundamentals under new management, and in Financials, First Interstate Bancsystems (FIBK) and Cullen/Frost Bankers (CFR) have benefited from rising interest rates and expanding margins.

In addition to several Technology holdings, a few other stocks have significantly detracted from year-to-date relative performance. They include AZEK Co. (AZEK), a Chicago-based supplier of home exterior products, which is being negatively impacted by rising interest rates, energy costs, and near-term declines in consumer demand. Catalent (CTLT), a New Jersey-based provider of drug and consumer health product infrastructure and manufacturing products, which has been hurt by ebbing demand for COVID-19 vaccines. Littelfuse (LFUS), a Chicago-based maker of electric circuit protection, power control, and sensing products, facing a demand contraction in its consumer electronic end markets. Oshkosh (OSK), a Wisconsin-based maker of access, defense, fire and emergency, and commercial equipment, struggling with rapidly rising input costs. Finally, Jamf (JAMF), a Minneapolis-based software company primarily focused on managing Apple devices in an enterprise setting, negatively impacted by slowing demand for Apple products.

This past quarter, we exited CyberOptics (CYBE), a Minnesota-based maker of inspection components and equipment for the semiconductor industry that was acquired by a private equity firm for a 32% premium. Our position in CyberOptics dates back to March 2017, and it exemplifies the soundness of our long-term approach to investing. The acquisition premium paid for CyberOptics helped also has boosted the Fund's relative performance year-to-date.

Also, with Healthcare sector valuations declining during the quarter, we added Ohio-based Medpace (MEDP), a supplier of outsourced clinical research solutions to the biotechnology and pharmaceutical industry. Medpace helps pharma customers run very complex FDA trials, and is it has been focuseding on smaller customers that require a full-service solution. The company is well positioned as one of the few contract research organizations with the geographical reach to run large, dispersed trials, and it has a particularly attractive mix of customers in some of the fastest growing verticals like oncology and neurology. Medpace also benefits from attractive long-term secular trends toward outsourced drug development and the need for customers to navigate an as well as thean increasingly complex FDA approval processregulatory requirements for FDA approval.

As discussed above, normalization of the economy is not a smooth or even process, but taking a through-cycle long-term approach, we view the related bumps in the road as just that, and believe they are temporary. These bumps have resulted in great companies trading at significantly lower valuations, creating attractive investment opportunities for long-term investors. As of September 30, the S&P Small Cap 600 group traded at 10.4 times forward earnings, a 31% discount to the S&P 500 index and a 41% discount to its 10-year average. While normalization can be uncomfortable, our experience supports the belief that this is part of the handoff from one economic cycle to another. We believe top performing companies in the next cycle will be those possessing durable competitive advantages, the pricing power to navigate rising input costs, the cash flows to reinvest in new products and initiatives, and the margins and returns to drive higher earnings growth rates throughout the economic cycle. We remain confident that our long-term approach to investing is particularly well-suited to current conditions, where many high-quality companies' shares are trading at a discount.

A couple final notes: We expect to report a 2022 capital gains estimate in mid-November, so please check our website then for the estimate. Lastly, after roughly 80 years in the First National Bank building, Mairs & Power will be moving in mid-December to a new office at Wells Fargo Place, still in downtown St. Paul. We remain committed to our hometown, where we were founded 91 years ago, and our new location will help us adapt to a changing work environment. The office layout provides more opportunities for collaboration and enhances how we serve our clients.

Andrew R Adams, CFA
Lead Manager
middle right

Allen D. Steinkopf, CFA
Co-Manager
middle left

Chris D. Strom, CFA
Co-Manager
left

Mike C. Marzolf
Co-Manager
right

Mairs & Power Small Cap Fund Contributors

Year-to-Date (%) 12/31/2021—9/30/2022

LARGEST CONTRIBUTORS TO RELATIVE PERFORMANCE		LARGEST DETRACTORS FROM RELATIVE PERFORMANCE	
Digi International, Inc.	40.70	AZEK Company Inc. Class A	-64.06
MGP Ingredients, Inc.	24.91	Catalent, Inc.	-43.48
Cullen/Frost Bankers, Inc.	4.88	JAMF Holding Corp.	-41.70
Casey's General Stores, Inc.	2.62	Oshkosh Corp.	-37.64
CVRx, Inc.*	-23.71	Littelfuse, Inc.	-36.86

Largest relative contributors and detractors are securities that were selected based on their contribution to the portfolio as of September 30, 2022. 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.

*CVRx, Inc. was a relative contributor even though it was down on an absolute basis.

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 September 30, 2022: Apple, Inc. 0.00%, AZEK Company Inc. 1.67%, Casey's General Stores, Inc. 4.10%, Catalent, Inc. 2.91%, Cullen/Frost Bankers, Inc. 4.34%, CVRx, Inc. 0.26%, CyberOptics 0.00%, Digi International, Inc. 2.15%, First Interstate Bancsystems 2.67%, JAMF Holding Corporation 2.76%, Littelfuse 3.77%, Medpace Holdings, Inc. 1.53%, MGP Ingredients, Inc. 2.29%, Oshkosh Corporation 3.11%.

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 09/30/2022

Fund/Index	1 YR	3 YR	5 YR	10 YR	SINCE INC
Mairs & Power Small Cap Fund[1]	**-16.02**	**5.11**	**4.24**	**9.26**	**11.71**
S&P Small Cap 600 TR Index[2]	-18.83	5.48	4.84	10.09	11.23
Russell 2000 TR Index[3]	-23.50	4.29	3.55	8.55	9.62
Morningstar Small Blend[4]	-19.08	4.35	3.25	7.86	—

Expense Ratio 0.95% 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.

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.

S&P 400 Midcap Index TR Index is an unmanaged index of 400 mid-cap stocks that generally covers over 7% of the U.S. equities market.

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.

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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