

The background of the entire page is a faded, light-colored image of a city skyline. In the foreground, a large ship is docked at a pier. The ship's name, "SS THORPE", is visible on its side. The city buildings in the background are of various heights and architectural styles, with a prominent skyscraper in the center. The overall tone is muted and professional.

MAIRS & POWER

# GROWTH *fund*

## Third Quarter Results

September 30, 2016

FOCUSED INVESTING FOR THE LONG-TERM

# GROWTH *fund* (MPGFX)

## Third Quarter Market Overview - September 30, 2016

The market continued its nervous advance with the only consensus opinion being “uncertainty.” For the quarter and the first nine months, the S&P 500 Total Return (TR) was 3.85% and 7.84% respectively and the Dow Jones Industrial Average TR was 2.78% and 7.21%. Our other key benchmark, the Barclays Government/Credit Bond Index Return was 0.40% and 6.66% for the third quarter and year-to-date.

Economic indicators continued to deliver mixed signals in the third quarter. Industrial production and manufacturing output both softened in the quarter and capacity utilization in the industrial sector dipped 0.4 percentage points in August to 75.5 percent, 4.5 percentage points below its long run (1972 – 2015) average. Reflecting strength on the consumer side of the economy, interest rates moved up a bit in the quarter. Financial stocks performed well on the expectation that

the Federal Reserve (Fed) would raise rates in Q3. But like Lucy pulling the football away from Charlie Brown one more time, the central bank deferred action and Fed chair Janet Yellen’s most recent comments have led us to conclude that they will take no action on rates until December at the earliest. As a result, the market remains focused on two key questions: “What is the Fed going to do?” and “When is it going to do it?”

While no one knows with certainty the direction of earnings or the timing of interest rate hikes, the large political uncertainty hanging over the markets will be taken away with the presidential election occurring in early November.

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.

Barclays Government/Credit Bond Index. Barclays is composed of high-quality, investment-grade U.S. government and corporate fixed income securities with maturities greater than one year. It is not possible to invest directly in an index.

## Future Outlook

As the third quarter's earnings reports are coming in, the outlook is not sunny, with earnings expectations for the S&P 500 down year-over-year for the sixth straight quarter. But we see some brightening on the horizon as we expect that earnings growth for the S&P 500 will turn positive in the fourth quarter and revenues will post positive growth for the first time in several quarters. While the industrial side of the economy remains soft, consumers continue to do well. The economy appears to be approaching full employment and wage gains are tracking higher. Consumer confidence is high and spending has been growing at a healthy pace. Overall economic growth continues at a moderate pace. And, while oil prices have begun to recover from their precipitous drop, sustained weakness in the energy sector continues to pull down aggregate corporate earnings for the broader market. Persistently sluggish economic growth along with low interest rates have fueled merger and acquisition (M&A) activity as companies "buy" growth through acquisitions and we expect increased M&A activity to continue as long as these conditions persist. We remain optimistic about the U.S. economy long-term and the outlook for stocks of good companies for which we are always on the lookout. Near term, the S&P 500 appears slightly expensive based on the next twelve months earnings outlook, so we remain watchful and cautious.

## Growth Fund Performance Review

The Growth Fund remains well ahead of its benchmark index and peer group for the first nine months of the year, gaining 12.52% compared to a gain of 7.84% for the S&P 500 Total Return (TR) benchmark and 8.15% for the Lipper Multi-Cap Core Funds Index of peers. In the 3rd quarter, the Fund gained 1.34% compared to a gain of 3.85% for the S&P 500 TR and 4.79% for the Lipper Index. Stock selection remains the major driver of the Fund's relative performance for both the third quarter and year-to-date.

*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 lower or higher than the performance quoted. For the most recent month-end performance figures visit [www.mairsandpower.com](http://www.mairsandpower.com) or call Shareholder Services at (800)304-7404. Expense Ratio 0.65%.*

The Fund performed about as expected in the quarter. Financials and industrials were the largest contributors to the Fund's performance on a sector basis, but the information technology (IT) sector continued to lead the market over all other sectors in terms of stock performance, driven in part by improved PC demand and rising expectations for the recently introduced Apple iPhone 7. Because of the Fund's relative underweight position in the IT sector, we did not fully participate in the gains in Q3, similar to the dynamic we saw in previous periods when the IT sector led performance. For the first nine months, industrials, health care and materials sector stocks were the largest contributors to the Fund's performance.

As noted in our outlook section, we have seen increased M&A activity driven by low interest rates and sluggish organic growth, which has affected several portfolio companies in the Fund. In addition to previously announced acquisitions of St. Jude Medical (STJ) by Abbott Labs (ABT) and Valspar (VAL) by Sherwin Williams (SHW) this year, in the third quarter we saw the announcement that Cintas Corporation (CTAS) will acquire G&K Services (GK). Each of these transactions has had a positive impact on near-term Fund performance. They will also have

### Mairs & Power Growth Fund Performers

#### TOP PERFORMERS

THIRD QUARTER (6/30/16 - 9/30/16)		YEAR-TO-DATE (12/31/15 - 9/30/16)	
Qualcomm, Inc.	24.02%	Donaldson Co., Inc.	22.41%
Principal Financial Group	21.45%	Pentair Ltd.	21.86%
Pentair Ltd.	6.36%	St. Jude Medical, Inc.	21.28%
Donaldson Co., Inc.	4.79%	Toro Co.	20.45%
U.S. Bancorp	2.50%	Valspar Corp.	20.03%

#### WEAK PERFORMERS

THIRD QUARTER (6/30/16 - 9/30/16)		YEAR-TO-DATE (12/31/15 - 9/30/16)	
Cray Inc.	-25.17%	Cray Inc.	-35.30%
General Mills, Inc.	-14.28%	Wells Fargo & Co.	-26.38%
Fiserv, Inc.	-12.37%	Target Corp.	-13.25%
Graco, Inc.	-10.17%	Hormel Foods Corp.	-11.91%
Johnson & Johnson	-6.46%	U.S. Bancorp	-7.32%

Past performance does not guarantee future results.

an impact on the Fund's capital gains. We will announce estimated capital gains distribution in mid- to late November. For more information regarding capital gains please visit [www.mairsandpower.com](http://www.mairsandpower.com).

The St. Jude acquisition, expected to close in the fourth quarter, will result in current shareholders receiving a combination of cash and Abbott shares. We like the long-term outlook for Abbott Labs and expect to retain this position. Valspar and G&K are all cash transactions with G&K expected to close before year-end and Valspar expected to close next year. We have been trimming some of these acquisition targets, and using the proceeds to acquire new names. One such stock is Alphabet (GOOG) the holding company parent of Google, the leader in on-line search engines. While the company is headquartered outside of the Upper Midwest where many of our investments are located, it is an example of a stock that fits our investment approach in most other ways. The company enjoys above average growth, maintains a durable competitive advantage globally and is attractively valued.

Not every M&A transaction is necessarily positive for investors and we evaluate each based on its individual merits. That is why, earlier this year, when MTS Systems (MTSC) announced the acquisition of sensor maker PCB Group for \$580 million, we decided it was time to exit the stock. In addition to our concerns about execution of the current business, we did not believe the strategy behind the acquisition was solid. It added to the company's existing sensor business, where the company does not enjoy a strong competitive advantage, and it diluted MTS's durable competitive advantage in its core test business while adding substantial leverage to the balance sheet.

Another name in the Fund that has been in the news recently is Wells Fargo (WFC). Following reports of widespread deceptive sales practices and resulting government fines, which have hurt both the stock price and the company's reputation, we have received questions from many of our investors expressing concerns about our Wells Fargo position. While we share investors' concerns about the extent of the unauthorized accounts problem at Wells Fargo, we have decided to hold existing positions for the present. We know many of the senior executives at Wells Fargo and believe they are people of good character. We do not think the current situation indicates a systemic problem with the values of the organization or its people and we are convinced that changes are underway that will remove the incentives that caused the problem. We are also expecting a slower growth rate for Wells Fargo going forward. Despite our expectation for slower growth, the market has (in our opinion) overly punished the stock and this is a very inopportune time to sell Wells Fargo. We will closely monitor the situation and the impact on the company's competitive position and may make changes to our holdings of Wells Fargo if deemed appropriate.

Mark L. Henneman    Andrew R. Adams  
Lead Manager        Co-Manager

***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](http://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 Growth Fund as of September 30, 2016: Abbott Laboratories 0.46%, Alphabet Inc Cl C 0.75%, Apple Inc. 0.00%, Cintas Corp 0.00%, Cray Inc. 1.13%, Donaldson Co., Inc. 3.13%, Fiserv, Inc. 1.79%, G&K Services 0.49%, General Mills 2.89%, Graco, Inc. 3.44%, Hormel Foods Corp. 2.43%, Johnson & Johnson 3.49%, Qualcomm, Inc. 1.61%, MTS Systems Corp. 0.00%, Pentair Ltd. 2.46%, Principal Financial Group 2.06%, Sherwin-Williams Company 0.00%, St. Jude Medical, Inc. 4.02%, Target Corp. 2.25%, Toro Co. 2.94%, U.S. Bancorp 4.43%, United Health Group 0.79%, Valspar Corp. 2.23%, Wells Fargo & Co. 1.89%.

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 Annual Total Returns (%)

As of 9/30/16	YTD <sup>(1)</sup>	1 Year	3 Year	5 Year	10 Year
Mairs & Power Growth Fund <sup>(2)</sup>	12.52	19.43	9.09	17.23	8.40
S&P 500 TR Index	7.84	15.43	11.16	16.37	7.24
Lipper Multi-Cap Core Funds Index <sup>(4)</sup>	8.15	13.45	8.69	14.81	6.67
Expense ratio 0.65%			Inception: 11/07/1958		

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 most recent month-end performance figures visit [www.mairsandpower.com](http://www.mairsandpower.com) or call Shareholder Services at (800) 304-7404.

- (1) Periods less than one year are not annualized.
- (2) 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.
- (3) The S&P 500 Total Return (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.
- (4) Lipper Multi-Cap Core Funds Index measures the performance of the 30 largest mutual funds that invest in a variety of capitalization ranges, without concentrating 75% or more of their equity assets in any one market capitalization range over an extended period of time, as determined by Lipper, Inc. It is not possible to invest directly in an index.

All investments have risks. Mairs & Power Growth Fund is designed for long-term investors.

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.

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.

ALPS Distributors, Inc. is the Distributor for Mairs & Power Funds.

MAIRS & POWER

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