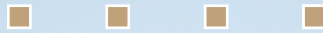


DECEMBER 31, 2025



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# Small Cap Fund

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FOURTH QUARTER RESULTS

MAIRS & POWER

— Focused Long-term Investing —

## Market Overview | Fourth Quarter 2025

Artificial intelligence (AI) and increasing market concentration took center stage again in 2025. The rate of investment in technology and AI infrastructure spending is driving the market narrative with valuations pushing higher, corporate spending accelerating, and bubble-like behaviors percolating beneath the surface.

Despite the dizzying activity, there were also encouraging signs with cooling inflation, a Federal Reserve (Fed) rate cut in the fourth quarter, and continued resilience in corporate earnings. The consistency of corporate earnings is a major reason for the continued strength of the stock market. The S&P 500 is projected to deliver 12% earnings growth in 2025, which is below the beginning of the year forecast for 15% growth, but still a decent result in the face of significant policy uncertainty. Additionally, small cap companies are showing their first signs of earnings growth recovery after three years of contraction, posting 13% growth in 2025. Still, the gap between price and earnings remains wide in many places. While AI-related companies continue to command premium valuations, other sectors, particularly defensives, mid-caps, and many industrial names, remain reasonably priced. This valuation divide continues to guide much of our investment activity.

On the economic front, inflation continued to ease across the CPI, PPI, and PCE measures, landing closer to the Fed's long-term target. Though still imperfect, these readings gave policymakers confidence to begin cutting rates in the fourth quarter, albeit with dissenting opinions. While the labor market cooled in 2025, it remains on solid footing with unemployment still below five percent.

While equity markets marched toward new highs, U.S. consumers felt mounting pressure. Rising costs, including insurance, utilities, property taxes, and groceries, continued to weigh heavily on households. In response, the University of Michigan Consumer Sentiment Index fell to levels typically associated with recessionary conditions. All these data points highlight a disconnect between Wall Street optimism and Main Street anxiety.

Looking at the indices for the fourth quarter, the S&P 500 Total Return (TR) was 2.66% for the quarter and returned 17.88% in 2025. Meanwhile, the Russell 2000 (TR) was 2.19% in the quarter and 12.81% for the year, and the Bloomberg U.S. Government/Credit Bond Index was 0.90% in the fourth quarter and 6.88% for the year.

**The Consumer Price Index (CPI) measures the average change over time in the prices paid by consumers for a representative basket of consumer goods and services.**

**The Producer Price Index (PPI) measures the average change over time in the selling prices received by domestic producers of goods and services.**

**The Personal Consumption Expenditures (PCE) measures how much U.S. households spend on goods and services.**

**Past performance is not a guarantee of future results.**

## Future Outlook

A recent McKinsey report titled, “The cost of compute: A \$7 trillion race to scale data centers,” projects that nearly \$7 trillion in capital expenditures will be needed worldwide by 2030 to build up the infrastructure needed to keep up with AI demand. For comparison, the cost of building out cloud computing infrastructure is estimated to be around \$500 billion. One of the closest comparisons to what McKinsey is estimating would be roughly \$5 trillion spent during the industrial boom, but that process took decades.

While we can't predict all that the new year will hold for the markets, we do believe we are entering a transition period for AI. As we've seen with previous periods of rapid technological innovation, the initial excitement of the building-out phase is often short lived and filled with promises (and companies) that don't ultimately live up to expectations. Given the flood of capital into AI and the increasing use of debt and unusual financing structures, there are signals that the cycle is moving into a higher risk phase.

A helpful data point as we look at 2026 and beyond is the expectation for lower interest rates. That process began in 2024, but accelerated in the second half of 2025, and is expected to further cool in 2026. Interest rate changes, up or down, take time to work their way through the economy, but it typically takes around a year to feel the effects from changes. Also, though there has been an uptick in layoffs at large companies, it is important to remember that small businesses are the real job engine in the economy, accounting for over 80% of employment. Lower rates and more importantly, rising small business profits, would likely support an uptick in hiring, and in turn, consumer confidence.

Finally, more stability in terms of trade and economic policy could also go a long way toward improving the consumer outlook. Thus far tariffs have not proved to be the economic disaster many predicted, largely since they have not been fully implemented. While the legal status of tariffs remains in limbo, a more stable environment would benefit confidence and in turn, hiring and spending.

Our approach to navigating this environment remains firmly centered on identifying businesses that will harness technological advancement (e.g., AI) over the long-term, not just during the initial build-out, which we believe can increase those companies' competitive advantages, and consequently their growth rates. While this can mean missing out on some of the early “excitement,” identifying those companies benefiting most from these secular shifts is consistent with our philosophy and process, and we believe it is a prudent strategy for both compounding and protecting wealth over the long-term.

## Executive Summary

- The Fund underperformed its benchmark due to stock selection
- Prominent detractors from relative performance: Inspire Medical (INSP), CVRx (CVRX), and MGP Ingredients (MGPI).
- Prominent contributors to relative performance: Exact Sciences Corp. (EXAS), Medpace Holdings, Inc. (MEDP), and nVent Electric (NVT).
- The Fund added Bentley Systems (BSY) during the fourth quarter.
- While earnings estimates are showing signs of stabilizing and even surpassing the S&P 500 in 2027, small cap stocks are still trading at a significant discount. We believe this presents an attractive opportunity for investors focused on the long term.

## Performance Review

For the year, the Mairs & Power Small Cap Fund returned 3.98%, underperforming the Russell 2000 Total Return (TR) Index, which was up 12.81%, the S&P Small Cap 600 TR, which was up 6.02%, and its peer group, the Morningstar U.S. Fund Small Blend, which was up 7.68%.

*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%.*

Looking back at 2025, macro headwinds continued to impact smaller companies. However, in the second half of the year, small cap stocks experienced a boost as a softening labor market made it easier for smaller companies to find talent. Additionally, we believe the Fed lowering interest rates should provide a tailwind to profitability. In fact, small cap companies are showing signs of growth after three years of contraction, posting 13% earnings growth in 2025. Lower interest rates, reduced corporate tax burdens, and regulatory relief could offer further support to small caps. Looking ahead into 2026, earnings growth is expected to remain supportive with 15% growth projected for the S&P 600.

The Russell 2000, which is now our primary benchmark, still has many unprofitable, high valuation "speculative" names (e.g., biotech, quantum computing, early nuclear energy startups). During the "risk on" period of 2025, many of these speculative names performed quite well, which had a significant impact on relative performance.

Stock selection also weighed on relative performance, with a handful of names causing much of the Fund underperformance, particularly in Health Care, Information Technology, and Materials. Overall, sector allocation was a positive contributor to relative performance, but it wasn't enough to overcome the headwinds from individual holdings.

Notable detractors from relative performance during the period were **Inspire Medical, CVRx,** and **MGP Ingredients**. Inspire Medical had a difficult first three quarters of the year due to challenges rolling out a new version of their product, and delays setting up reimbursement codes and billing software. The stock rebounded somewhat in the fourth quarter, but it wasn't enough to overcome the weakness earlier in the year. Inspire's product offering and differentiation in the market is still a strength, and supportive of continued leadership in a large addressable market, which is why we have stuck with the stock. CVRx, which develops, manufactures, and sells neuromodulation devices that improve heart failure symptoms, experienced a change in management and a painful technology transition that's negatively impacted the company. Difficult conditions across the beer/wine/spirits industry have impacted MGP Ingredients as the company continues to work through elevated bourbon inventory levels. We believe those cyclical pressures will likely ease in the coming quarters, and the company's premium brands and market share still support our optimism for long-term growth.

Notable positive contributors for the Fund were **Exact Sciences, Medpace Holdings, Inc.,** and **nVent Electric**. Exact Sciences, a Wisconsin-based medical-testing company, had an impressive year led by its Cologuard diagnostic test and capped it off being acquired by **Abbott Laboratories (ABT)**. While we are disappointed to lose Exact from the portfolio, we believe the acquisition is a smart one by Abbott and adds to the company's competitive advantage in the market. Medpace outperformed this year due to improvements in clinical trial cancellation trends within its pipeline, powered by GLP-1 strength. Finally, nVent had a positive 2025 due to surging data center demand related to liquid cooling of servers and a key acquisition helping to improve revenue.

The Fund added **Bentley Systems** during the fourth quarter. Based in Pennsylvania, Bentley Systems sells software for the design, build, and management of infrastructure projects (e.g., roads, bridges, water, electricity, transportation, communications, and buildings). We believe Bentley's software solutions will remain in demand to meet the trillions of dollars being spent on infrastructure projects, with the company gaining market share and improving margins.

As we look forward to 2026, there are multiple reasons to feel optimistic about the small cap environment. Consistent with our philosophy and process, we are focused on earnings which are expected to keep up with the S&P 500 and potentially outgrow it in 2027. At the same time, small cap stocks are still trading at a discount to the S&P 500. Sticking to our valuation discipline, we are finding small cap companies with durable competitive advantages that are trading at favorable valuations. As the prospects for the market broadening to include small caps improve, we believe the Fund is well positioned to be a great opportunity for long-term investors.



**Chris D. Strom**  
Co-Manager  
*Left*

**Mike C. Marzolf**  
Lead Manager  
*Middle*

**Andrew R. Adams**  
Co-Manager  
*Right*

## Mairs & Power Small Cap Fund Contributors

Year-to-Date (%) 12/31/2024—12/31/2025

### LARGEST CONTRIBUTORS TO RELATIVE PERFORMANCE

Exact Sciences Corp.  
 Medpace Holdings, Inc.  
 nVent Electric PLC  
 Casey's General Stores, Inc.  
 AAR Corp.

### LARGEST DETRACTORS FROM RELATIVE PERFORMANCE

Inspire Medical Systems, Inc.  
 CVRx, Inc.  
 MGP Ingredients, Inc.  
 Knife River Corp.  
 Workiva Inc. Class A

*Largest relative contributors and detractors are securities that were selected based on their contribution to the portfolio as of December 31, 2025. The performance is based on 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.*

***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 Small Cap Fund as of December 31, 2025: AAR Corp. 4.00%, Bentley Systems 1.37%, Casey's General Stores Inc. 2.10%, CVRx, Inc. 0.44%, Exact Sciences Corp. 0.61%, Inspire Medical Systems 2.20%, Knife River Corp. 3.72%, Medpace Holdings, Inc. 3.13%, MGP Ingredients, Inc. 1.82%, nVent Electric PLC 3.31%, Workiva, Inc. 3.63%.

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 12/31/2025

Fund/Index	1 YR	3 YR	5 YR	10 YR	SINCE INC
<b>Mairs &amp; Power Small Cap Fund<sup>1</sup></b>	<b>3.98</b>	<b>7.39</b>	<b>6.08</b>	<b>8.48</b>	<b>11.30</b>
Russell 2000 TR Index <sup>2</sup>	12.81	13.73	6.09	9.62	10.75
S&P Small Cap 600 TR Index <sup>3</sup>	6.02	10.17	7.31	9.81	11.48
Morningstar U.S. Small Blend Category <sup>4</sup>	7.68	11.45	7.48	8.78	-
Expense Ratio 0.94%					Inception 8/11/2011

*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 call Shareholder Services at (800) 304-7404.*

<sup>1</sup> 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.

<sup>2</sup> Russell 2000 TR Index is a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index.

<sup>3</sup> 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.

<sup>4</sup> Morningstar U.S. 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.

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.

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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