

Mairs and Power, Inc.
Form ADV Part 2A

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This brochure provides information about the qualifications and business practices of Mairs and Power, Inc. If you have any questions about the contents of this brochure, please contact us at (651) 222-8478. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Mairs and Power, Inc. is an SEC-registered investment adviser. This registration does not imply a certain level of skill or training.

Additional information about Mairs and Power, Inc. is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 Material Changes

In this item, we are required to disclose any material changes to the brochure. Although there are minor changes to the document, none of the changes made since the brochure dated March 31, 2014 are material.

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Item 4 Advisory Business

Mairs and Power, Inc. is an SEC-registered investment adviser based in St. Paul, Minnesota. The firm was founded in 1931 and is 100 percent employee-owned.

We provide discretionary and non-discretionary investment advisory services to a variety of clients, including institutional accounts, individuals, pension and profit sharing plans, trusts, trust companies and health and welfare plans. We generally offer investment management services for equity, fixed income and balanced portfolios. We manage client accounts with primary emphasis on the attractiveness and appropriateness of individual investments given the particular circumstances of each client account. The portfolio managers and the Chief Executive Officer comprise the investment management committee (Investment Committee) and collectively bring more than 200 years of investment experience to the table. These professionals work collaboratively, leveraging their combined experience for the benefit of our clients. Investment portfolios are tailored to meet the needs and objectives of individual clients. Clients may impose investment restrictions regarding certain securities or types of securities within their portfolio.

In addition to separately managed accounts, we sponsor and manage the Mairs and Power Funds Trust, an SEC-registered investment company consisting of the following three series: Mairs & Power Growth Fund, Mairs & Power Balanced Fund, and Mairs & Power Small Cap Fund (individually a Fund and collectively the Funds). More information concerning the Funds, including advisory fees charged, is available in the Funds' prospectuses.

As of December 31, 2014, assets under management of the firm are comprised of \$8,167,617,012 client assets managed on a discretionary basis and of \$195,650,348 client assets managed on a non-discretionary basis.

Item 5 Fees and Compensation

Investment advisory fees are billed and payable quarterly in arrears based on the ending market value of assets under management, in accordance with the following annual fee schedule:

First	\$ 2,000,000	\$8.00 per \$1,000 (80 basis points)
Next	\$ 3,000,000	\$7.00 per \$1,000 (70 basis points)
Next	\$20,000,000	\$5.00 per \$1,000 (50 basis points)
Next	\$25,000,000	\$3.00 per \$1,000 (30 basis points)
Amounts over	\$50,000,000	\$1.00 per \$1,000 (10 basis points)

Additional fees may be required if the account is complex or requires additional administrative effort by us. Different fee schedules apply to those who were clients of Mairs and Power prior to April 1, 2014.

Fees different from the above schedule, including performance-based fees and fixed fees, may be negotiated in our sole discretion. Special circumstances warranting departures from the fee

schedule include, but are not limited to, large holdings, low tax costs, unsupervised assets and the management of other related accounts. Fees will be separately billed to the client; however, clients may elect to authorize us to directly debit fees from their accounts. The method of billing as a general matter is documented in the clients' investment management agreements with us. We use unaffiliated vendors in an effort to ensure fair valuation of the assets under management. We generally use this valuation for purposes of fee calculation.

Accounts initiated or terminated during a calendar quarter will be charged a prorated fee to the opening or termination date. Investment management agreements are required with all clients and may be terminated in writing by either party consistent with the notice provision contained in the agreement. Clients may terminate a new investment management agreement within five days of execution without financial penalty.

Our fees do not include brokerage commissions, transaction fees, and other related costs and expenses that will be incurred in connection with an advisory account. Custodians, brokers, and other third parties may charge our clients for items such as custodial fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Item 12 contains information regarding our brokerage practices.

Clients whose assets we invest in exchange-traded funds (ETFs) and other third-party mutual funds pay two levels of advisory fees on those assets - our direct advisory fee and their share of the advisory fees and other fees and expenses assessed to all shareholders of such funds. We do not receive any compensation from third-party fund complexes related to the investment of client assets in such funds.

On occasion, we may recommend shares of our Funds to clients if such an investment is suitable. Our Funds pay us advisory and administrative fees. We do not charge clients a separate advisory fee on those advisory clients' assets invested in the Funds. This practice avoids "double dipping" and creates no extra financial incentive to recommend our Funds.

Item 6 Performance-Based Fees and Side-by-Side Management

In rare cases, we have entered into performance-based fee arrangements with certain clients. These fees are subject to individualized negotiation with such clients. We structure any performance or incentive fee arrangement subject to applicable rules and regulations. In measuring clients' assets for the calculation of performance-based fees, we include realized and unrealized capital gains and losses. Performance-based fee arrangements can create an incentive for us to recommend investments which may be riskier or more speculative in an effort to create a higher return and a correspondingly higher advisory fee.

Performance-based fees also create another potential conflict for us because we manage such accounts using investment strategies substantially similar to other accounts that do not have performance-based fees. This is known as "side-by-side management." We currently have one account that charges a performance-based fee, creating the conflict that we have a financial incentive to favor the higher-fee paying account by providing it with better

investment opportunities and better trade allocations than accounts that pay us lower fees. We have established policies and procedures to address this conflict and periodically review and test to ensure performance is similar between this account and other non-performance-based fee accounts managed by the same portfolio manager.

Item 7 Types of Clients

Our clients include individuals, high net worth individuals, institutions, trusts, trust companies, pension and profit-sharing plans, health and welfare plans and our Funds. The minimum account size for advisory services is \$2,000,000. We may aggregate related accounts for the purpose of determining whether the account size minimum has been met and may otherwise waive the minimum in our sole discretion.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

We generally manage accounts using the three strategies set forth below. Subject to negotiation and in our sole discretion, we may agree with a client to vary these strategies. Our investment strategies for each account are ultimately subject to the investment guidelines agreed to by us and the client.

Equity Account Strategy

The objective of these accounts is to provide clients with a diversified portfolio of common stocks, which have the potential for above-average long-term appreciation. Equity portfolios are generally built on a foundation of selected quality growth stocks purchased at what we consider reasonable valuation levels. The intention is to hold these issues for relatively long periods of time to allow the power of compounding to build wealth for our clients. However, sales are made from time to time in response to such factors as changing fundamentals, investment strategy shifts and excessive valuation.

Most portfolios have a heavy representation in stocks of companies headquartered in the Upper Midwest region of the United States, which the Adviser considers to be the states of Illinois, Iowa, Minnesota, North Dakota, South Dakota and Wisconsin. We use this approach because we believe there are an unusually large number of attractive companies in this region that we have been following for many years. While this investment approach is not complicated, it has proven to be very effective over the long term, especially on a risk-adjusted basis. Subject to variations due to initial portfolio construction or client direction, we seek to keep the accounts' assets reasonably fully invested, maintain modest portfolio turnover rates and moderate risk by investing in diversified portfolios of equity securities.

Balanced Account Strategy

The objective of these accounts is generally to provide capital growth, current income and preservation of capital. Balanced portfolios utilize the same common stock approach as the equity strategy, but may place a greater emphasis on dividend-paying stocks. Preference is given to investment grade fixed income securities. Lower rated debt securities may be

purchased if, in the opinion of the portfolio manager, the potential rewards outweigh the incremental risks. Subject to variations due to initial portfolio construction or client direction, we seek to keep the accounts' assets reasonably fully invested, maintain modest portfolio turnover rates and moderate risk by investing in diversified portfolios of equity and fixed income securities.

Fixed Income Account Strategy

The objective of fixed income portfolios is primarily to provide regular current income and a low level of risk. Preference is given to investment grade fixed income securities. Lower rated debt securities may be purchased if, in the opinion of the portfolio manager, the potential rewards outweigh the incremental risks. Subject to variations due to initial portfolio construction or client direction, we seek to keep the account's assets reasonably fully invested, maintain modest portfolio turnover rates and limit risk by investing in a laddered schedule of maturities. Generally, fixed income securities are held to maturity.

Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear. Although investment portfolios are tailored to meet individual needs and objectives, long-term growth and avoidance of undue risk have usually been over-riding considerations. There is no assurance that an investment will provide positive performance over any period of time. Past performance is no guarantee of future results and different periods and market conditions may result in significantly different outcomes.

The material risks presented by the strategies employed and the securities we invest in are set forth below. For the Balanced Strategy, such risks are in proportion to the allocation of equity and fixed income securities within a portfolio. For all strategies, a portfolio's performance depends on the active management by the portfolio manager in selecting and maintaining securities that will achieve the investment objective. A portfolio could underperform compared to other portfolios having similar investment objectives. To the extent a portfolio is invested in the strategies and the securities set forth above, the following material risks may apply.

Equity and Balanced Strategy Risks

Market Conditions. Portfolios are subject to the general risk of adverse market conditions for equity securities. The market prices of equity securities are generally subject to greater risk than prices of fixed income securities, such as bonds and preferred stock. Although equity securities have historically demonstrated long-term increases in value, their prices may fluctuate markedly over the short-term due to changing market conditions, interest rate fluctuations and various economic and political factors.

Common Stock. Common stocks represent an ownership interest in a corporation and are subject to greater fluctuations in market values than other asset classes. In the event an issuer is liquidated or declares bankruptcy, the claims of owners of bonds, other debt holders and owners of preferred stock take precedence over the claims of those who own common stock.

Small and Midcap Securities. Small to medium sized companies often have a shorter history of operations, as compared to larger sized companies, and may be less diversified with respect to their product line. Stocks of these companies tend to be more volatile and less liquid than stocks of large companies.

Securities of Foreign Issuers and American Depositary Receipts (ADRs). To the extent that a portfolio includes securities of foreign issuers which are listed on a United States securities exchange or represented by ADRs, it will undertake certain risks which are not associated with investments in domestic securities. These risks include political, social or economic instability in the country of the issuer, the difficulty of predicting international trade patterns, the possibility of the imposition of exchange controls, expropriation, limits on removal of currency or other assets, nationalization of assets, foreign withholding and income taxation and foreign trading practices (including higher trading commissions, custodial charges and delayed settlements). Foreign securities also may be subject to greater fluctuations in price than securities issued by United States corporations. The principal markets on which these securities trade may have less volume and liquidity and may be more volatile than securities markets in the United States. In addition, there may be less publicly available information about a foreign company than about a United States domiciled company.

Fixed Income and Balanced Strategy Risks

Credit Risk. Credit risk is the risk that the issuer of a debt security will fail to make interest and principal payments when due. Securities issued or guaranteed by the United States Government generally are viewed as carrying minimal credit risk. Securities issued by governmental entities but not backed by the full faith and credit of the United States, and securities issued by private entities, are subject to higher levels of credit risk. Investors bear the risk that payment defaults could cause the value of the account's investment portfolio to decline.

Debt Securities Rated Less than Investment-Grade. Debt securities rated less than investment-grade will undertake a higher degree of credit risk than is associated with higher rated debt securities. Companies that issue these lower rated securities are often highly leveraged and may not have more traditional methods of financing available to them. In addition, the market values of lower rated securities may be more sensitive to developments which affect the individual issuer and to general economic conditions than the market values of higher rated securities.

Interest Rate Risk. Fixed-rate debt securities are subject to interest rate risk, which is the risk that the value of a fixed-rate debt security will decline due to an increase in market interest rates. The final maturity of debt securities will also affect interest rate risk and the price volatility of the portfolio. Generally, a debt security with a longer maturity will have greater price volatility as a result of interest rate changes than a debt security with a shorter maturity. Consequently, the account bears the risk that increases in market interest rates will cause the value of the investment portfolio to decline.

Liquidity Risk. Liquidity risk is the risk that investors may have difficulty finding a buyer when they want to sell and may be forced to sell at a significant discount to market value.

Call Risk. Corporate bonds and some securities issued by United States agencies and municipalities may be called (redeemed) at the option of the issuer at a specified price before

reaching their stated maturity date. This risk increases when market interest rates are declining, because issuers may find it desirable to refinance by issuing new bonds at lower interest rates. If a bond held in a portfolio is called during a period of declining interest rates, we will likely have no choice but to reinvest the proceeds received at a lower interest rate than that of the called bond, causing a decrease in the account's income.

Municipal Securities. To the extent the portfolio is invested in bonds issued by local governments, such bonds are subject to the fixed income risks described above as well as the following risks: 1) legislative risk- the risk that a change in the tax code could affect the value of tax-exempt interest income; and 2) liquidity risk- the risk that investors may have difficulty finding a buyer when they want to sell and may be forced to sell at a significant discount to market value. Liquidity risk is greater for thinly traded securities such as lower-rated bonds, bonds that were part of a small issue, bonds that have recently had their credit rating downgraded or bonds sold by an infrequent issuer.

Asset-Backed Securities. Asset-backed securities are securities that represent a participation in, or are secured by and payable from, pools of underlying assets such as debt securities, bank loans, motor vehicle installment sales contracts, installment loan contracts, leases of various types of real and personal property, receivables from revolving credit (i.e., credit card) agreements and other categories of receivables. The value of asset-backed securities may be affected by various factors such as changes in interest rates, the availability of information concerning the pool and its structure, credit quality of the underlying assets, the creditworthiness of the servicing agent for the pool, the originator of the underlying assets, or the entities providing the credit enhancement.

A portfolio holding asset-backed securities bears a risk of early prepayment of principal due to the sale of the underlying property, interest rate changes and general economic conditions. A portfolio's ability to reinvest prepayments of principal (as well as interest and other distributions and sale proceeds) at a comparable yield is subject to generally prevailing interest rates at that time. Prepayments of principal generally occur when interest rates are declining; therefore, we generally have to reinvest the proceeds of such prepayments at lower interest rates than those at which the assets were previously invested. As a result, asset-backed securities have less potential for capital appreciation in periods of falling interest rates than other income-bearing securities of comparable maturity.

Mortgage-Backed Securities. Mortgage-backed securities are securities representing interests in pools of mortgage loans secured by residential or commercial real estate. Payments of interest and principal on the mortgage-backed securities are generally made monthly by passing through the monthly payments made by the individual borrowers on the mortgage loans in the pool (net of any interest rate spread and fees paid to the issuer or guarantor of the securities). The strategy bears a risk of early repayment of principal on some mortgage-backed securities (arising from prepayments of principal due to sale of the underlying property, refinancing or foreclosure). Additionally, if the security is purchased at a premium, the value of the premium would be lost in the event of a prepayment.

Payment of principal and interest (but not the market value of the securities themselves) may be guaranteed by the full faith and credit of the United States Government (in the case of securities guaranteed by Government National Mortgage Association) or guaranteed by agencies or

instrumentalities of the United States Government (in the case of securities guaranteed by Federal National Mortgage Association or Federal Home Loan Mortgage Corporation). Mortgage-backed securities created by non-governmental issuers (such as commercial banks, savings and loan institutions, private mortgage insurance companies and mortgage bankers) may be supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance and letters of credit, which may be issued by governmental entities, private insurers or the mortgage originators.

Securities of Foreign Issuers and American Depositary Receipts (ADR's). To the extent that the portfolio includes securities of foreign issuers which are listed on a United States securities exchange or represented by ADR's, it will undertake certain risks which are not associated with investments in domestic securities. These risks include political, social or economic instability in the country of the issuer, the difficulty of predicting international trade patterns, the possibility of the imposition of exchange controls, expropriation, limits on removal of currency or other assets, nationalization of assets, foreign withholding and income taxation and foreign trading practices (including higher trading commissions, custodial charges and delayed settlements). Foreign securities also may be subject to greater fluctuations in price than securities issued by United States corporations. The principal markets on which these securities trade may have less volume and liquidity and may be more volatile than securities markets in the United States. In addition, there may be less publicly available information about a foreign company than about a United States domiciled company.

Item 9 Disciplinary Information

We are required to disclose all material facts regarding any legal or disciplinary events that may be material to your evaluation of us or the integrity of our management. There are no such events and, as a result, we have no information responsive to this Item.

Item 10 Other Financial Industry Activities and Affiliations

We provide advisory and certain administrative services to our Funds, for which they pay us. Certain of our principals also serve as trustees and/or officers of the Funds, but they receive no compensation from the Funds for such service. As disclosed above, to the extent we invest client assets in our Funds, we do not charge clients a separate advisory fee on those assets.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

General Overview

We have adopted a Code of Ethics (the Code) that sets forth the standards of business, fiduciary and ethical conduct we require of our employees. Among other things, the Code requires us to conduct our business at all times consistent with our status as a fiduciary to our clients. This

means we have affirmative duties of care, loyalty, honesty, and good faith in connection with all of our activities for our clients and must always act in the best interests of our clients.

The Code also requires all employees to comply with all applicable federal security laws, and prohibits misuse of material non-public information or communicating material nonpublic information to others in violation of the law. Under applicable law, Mairs and Power and its directors, officers, and employees are prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any other person, regardless of whether such other person is a client. Accordingly, should any personnel come into possession of material non-public or other confidential information with respect to any company, such personnel are prohibited from communicating such information to, or using such information for the benefit of, their respective clients. We have established procedures to aid employees in avoiding insider trading, and to aid us in preventing and detecting insider trading.

Our officers and employees do now and are expected in the future to have interests in securities that may be recommended to a client, including our Funds. This creates a conflict to the extent that an employee could use the knowledge about pending or currently considered client securities transactions to profit in personal securities transactions. For example, an employee who is aware of an upcoming client purchase of a security that might increase the price of that security could use that knowledge to buy the security before the client account buys the security and then sell the security and reap a profit. We address this conflict using the procedures and restrictions discussed below.

Personal Trading

Personal securities transactions by employees of Mairs and Power are subject to the restrictions and procedures described in the Code. No employee or person acting on his or her behalf, shall act in such a way as to benefit from the knowledge that a Fund Manager has taken, or is considering taking, on an investment position in a security where such an action by a Fund Manager is likely to influence the market price of that security. Unless specifically permitted, no employee shall execute a personal securities transaction when we (on behalf of the Funds) 1.) have a pending buy or sell order in that same security; 2.) have purchased or sold that same security within three calendar days before or after the date the employee seeks to engage in the personal transaction; or, 3.) are recommending the security for purchase (the Recommended List) or sale (Holdings Watchlist). The Code requires employees deemed “access persons” to pre-clear and obtain authorization before executing personal trades for certain security types, including but not limited to equity securities and fixed income securities.

To ensure the standards of the Code are adhered to, the Code requires all employees to submit a transaction report quarterly and a holdings report annually. The Chief Compliance Officer (CCO) or designee reviews the reports.

Gifts and Entertainment

From time to time, employees may receive gifts and/or entertainment in connection with their employment at Mairs and Power. To reduce the potential for conflict between an employee’s personal interests and the interests of our clients, we have adopted a gifts and entertainment policy in our Code based on the principle that employees should not accept or solicit anything of

value that is intended or designed to cause, or would be reasonably judged to have the likely effect of causing, such employee to act in a manner inconsistent with the best interest of our clients. All gifts and entertainment above a de minimis threshold are reported to the CCO on a quarterly basis to ensure reasonableness, propriety and consistency with the policy.

A copy of our Code of Ethics is available to clients and prospective clients upon request using the contact information on page 1.

Other Disclosures

We and our employees occasionally may make contributions to certain clients and Fund shareholders that are charitable organizations. Both the firm and employees are prohibited from making charitable contributions for the purpose of obtaining or retaining advisory contracts with organizations. In addition, employees are prohibited from considering Mairs and Power's or the Funds' current or anticipated business relationships as a factor in making charitable contributions. Any contributions made by Mairs and Power must be reviewed and approved by the Chief Executive Officer (CEO).

Certain of our principals serve as officers and trustees of unaffiliated non-profit organizations that have hired us to provide advisory services or have invested in our Funds. These principals are required to disclose these relationships both to us and to the non-profits and are required to abide by any restrictions such organizations impose on them regarding decisions to retain us or invest in our Funds. Any employee wishing to serve as a director, committee member, or in a similar oversight role for an outside public company or private company (for profit or not-for-profit), or who wishes to engage in any outside business activity, must first seek approval from the CCO. The CCO will review the request to ensure such service is not inconsistent with the interests of Mairs and Power, the Funds, and clients.

From time to time, Mairs and Power, Inc. may invest its own money directly in a Fund. Such investments are made for business purposes but create the risk that we could use our inside knowledge of Fund developments, such as likely increases or decreases in the value of a Fund, when buying or selling Fund shares. As a practical matter, we believe the actual risk related to such activity is low because it is our policy to pre-approve and monitor all of our corporate transactions in a Fund.

Item 12 Brokerage Practices

Broker Selection

With respect to our institutional accounts and the Funds, we generally have authority to place brokerage at our discretion. We make every effort to use traditional broker-dealers and electronic trading platforms that execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including:

- Combining transaction execution services and asset custody services (generally

- without a separate fee for custody);
- Capability to execute, clear and settle trades (buy and sell securities for your account);
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.);
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds, etc.);
- Availability of investment research and tools that assist us in making investment decisions;
- Quality of services;
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices;
- Reputation, financial strength and stability; and
- Prior service to us and our other clients.

We and/or the Funds have arrangements with certain broker-dealers whereby they provide certain services to Fund shareholders. We do not consider these arrangements or otherwise favor these broker-dealers in selecting broker-dealers to execute client trades.

Directed Brokerage

Upon request, we will recommend broker-dealer custodian firms with which we have existing relationships to prospective clients who do not have pre-existing broker-dealer custodian relationships. In these situations, brokerage commissions and other charges for transactions not executed through the broker-dealer custodian are typically charged to the client. For this reason, and subject to our obligation to seek best execution, it is likely that most, if not all, transactions for such clients will be executed through the broker-dealer custodian. Although we may recommend that you use a particular broker-dealer custodian, you will decide whether to do so and will open an account with the broker-dealer custodian by entering into an account agreement directly with the broker-dealer custodian. Such agreement will govern your relationship with the broker-dealer custodian and contain your related fees and expenses.

The broker-dealer custodian firms we recommend or direct brokerage to because of their custodial relationships provide us and our client accounts with a variety of free or discounted products, services, or information. As a result we have a conflict of interest in recommending them. They provide us and your account with access to their institutional brokerage services, such as trading, custody, reporting, and other related services. Other services we receive do not benefit your account directly, but do benefit us and are identified below. The benefits we receive are not provided on the basis of client transactions, nor do clients pay additional fees or commissions to us or any broker-dealer to obtain these products or services. Following is a more detailed description of these services:

Services That May Not Directly Benefit You. These products and services assist us in managing and administering our clients' accounts. We have access to software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements);

- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- Provide pricing and other market data;
- Facilitate payment of our fees from our clients' accounts; and
- Assist with back-office functions, recordkeeping, and client reporting.

Services That Generally Benefit Only Us. We also participate in other services that are intended to help us manage and further develop our business enterprise, including:

- Educational seminars;
- Consulting on technology, compliance, legal, and business needs; and
- Publications on compliance and business management issues.

The availability of these services benefits us because we do not have to produce or purchase them. We do not pay for these services. We believe that our recommendation of any broker-dealer custodian is in the best interests of our clients. Our recommendation is primarily supported by the scope, quality, and price of services and not services that benefit only us.

Broker-dealer custodians may refer clients to us. We deem such clients to have directed their brokerage transactions to the referring firm. By virtue of executing trades through such firms, we may be deemed to be indirectly compensating such firms for the referral of clients. We may have an incentive to direct brokerage transactions based on our interest in receiving client referrals, rather than on clients' interests in receiving most favorable execution. On an annual basis, we will confirm your ongoing intention for your trades to be executed through such broker-dealers. At any time, you may inform us to stop executing transactions with such broker-dealers.

If a client's brokerage direction does not require us to seek best execution, such brokerage direction may cost the client more money and we may not be able to achieve best execution. The following risks are associated with brokerage direction:

- The direction may result in higher commissions, greater spreads or less favorable net prices than would be the case if we selected the brokers;
- The direction may result in trades for your account not being aggregated with similar trades for other client accounts and thus not eligible for the benefits that accrue due to such aggregation of orders;
- As a result of not being aggregated, your transactions may be executed after client accounts whose trades are aggregated and may receive less favorable prices; and
- Your accounts may not generate returns equal to those of other client accounts which do not direct brokerage.

Trade Aggregation

With respect to individual clients, given the highly individualized nature of the investment services we provide, securities transactions for these accounts are often effected separately for each account. In our discretion, we may combine or aggregate purchase or sale orders for more than one client when we believe such aggregation is consistent with our duty to seek best

execution. Whether to aggregate equity trades is at the discretion of each portfolio manager with respect to his or her clients. The decision to aggregate is made only after we determine that it does not intentionally favor any account over another and that each participating account will receive the average share price and will share pro rata in the transaction costs. From time to time an aggregated order involving multiple accounts does not receive sufficient securities to fill all the accounts. In these instances, clients will participate on a pro rata basis in any partially filled orders.

We may also accept non-discretionary advisory arrangements, where clients retain investment discretion with respect to transactions in the account and must approve our recommendations before we can implement such recommendations. We may provide our recommendations to such clients at the same time we seek to implement the recommendations to our discretionary clients. To the extent there is a delay in obtaining approval from non-discretionary clients, such transactions will be executed after the transactions of our discretionary clients. This may result in non-discretionary clients obtaining a price that is different and in some cases less favorable than those account trades that are executed first.

Use of Soft Dollars

Although we select broker-dealers primarily on the basis of their execution capabilities, our selection of broker-dealers to execute transactions involving the Funds and other accounts that permit us to do so (either now or in the future) may include a consideration of the quality and amount of the research and research-related services the selected broker-dealer provides us. As permitted by Section 28(e) of the Securities Exchange Act of 1934, as amended and regulatory guidance from the SEC, we may pay a broker a brokerage commission higher than that which another broker might have charged for effecting the same transaction in recognition of the value of the brokerage and research services provided by the broker. In other words, we may use client commissions or "soft dollars" to obtain research or brokerage services that benefit us and our client accounts.

Clients should be aware of the conflicts of interest created by the use and allocations of soft dollar arrangements. We receive a benefit by using soft dollars because we do not have to produce or pay for the research or services. This benefit may be seen as creating an incentive to select a broker or dealer to execute client trades based on our receiving the research or services, rather than on clients' interest in receiving most favorable execution. In addition, soft dollar benefits have the potential to cause an investment adviser to trade frequently to generate soft dollar commissions to pay for these products or services, which may not be in the best interests of clients. Our investment strategy and trading procedures mitigate these potential conflicts. We have adopted policies and procedures concerning soft dollars, which address all aspects of our use of client commissions and require that such use be consistent with Section 28(e), provide lawful and appropriate assistance in the investment decision-making process, and that the value of the research or brokerage service obtained be reasonable in relation to the commissions paid.

As a general matter, the research services we receive from broker-dealers are used to service all of our accounts that invest in equity securities. However, any particular research service may not be used to service each and every client account and may not benefit the particular accounts that

generated the brokerage commissions. We do not try to allocate soft dollar benefits to client accounts proportionately to the soft dollar commissions the accounts generate. The Funds and accounts containing fixed income securities currently generate the soft dollars, and other accounts benefit from the amounts accrued.

The soft dollar benefits we received in the last fiscal year were all research-related and are designed to augment our own internal research and investment strategy capabilities. All such research was prepared by the broker-dealers that provided the research (known as “proprietary research”). We received written fundamental research on individual companies, written research focused on investment strategy or economics, access to analysts who write fundamental research (most frequently by telephone, occasionally in person), access to broker-dealer sponsored investor events and access to company management roadshows.

Our Brokerage Committee, comprised of the portfolio managers, the CEO and the CCO (as a non-voting member), is responsible for our procedures concerning the use of client commissions. It is responsible for approving any new soft dollar brokerage relationship and for reviewing research and quality of execution annually to make determinations as to the reasonableness of the brokerage allocation, as well as the price for such services versus the value received. At least twice a year, the Brokerage Committee reviews the performance of those broker-dealers that execute our discretionary brokerage transactions to guide the allocation of trades for the upcoming six-month period.

We do not enter into agreements with any broker-dealers which obligate us to direct a certain amount of brokerage or commission in return for research and services. We also do not “backstop” or otherwise guarantee any broker’s financial obligation to a third party for such research and services. However, certain broker-dealers may state in advance the amount of brokerage commissions they require for certain research or services and the applicable cash equivalent.

Trade Errors

Occasionally, a mistake may occur in the execution of a trade. Errors may occur for a number of reasons; examples include, but are not limited to, the following:

- Buying or selling the wrong security;
- Buying, selling or allocating the incorrect number of shares;
- Buying or selling a security in the wrong account;
- Buying rather than selling a security;
- Selling rather than buying a security;
- Buying or selling securities not authorized for a client's account;
- Failing to follow specific client instructions to purchase, sell or hold securities; or
- Buying or selling in violation of one of our policies.

To the extent that correction of an error results in a loss to the client's account, we will reduce the next quarterly billing or reimburse the client. To the extent the correction results in a gain to the client's account, we allow the client to keep the benefit. If the error was attributable to a broker’s action, we will seek reimbursement from the broker. Certain brokers have policies in which they will absorb gains or losses below certain thresholds, which vary among brokers and is generally

around \$100. This policy relieves us of the financial obligation to reimburse losses less than the established threshold.

Item 13 Review of Accounts

As a general matter, accounts are continuously reviewed by the portfolio manager responsible for the account. Certain accounts may be reviewed on a quarterly basis. Such accounts may also be reviewed more frequently in the event one or more of the following occurs:

- Cash flow into or out of the account;
- An imbalance due to an over- or under-weighted security or security group;
- The holding of a security that is being considered for sale;
- A bond maturity or call;
- Evidence of cash reserves that should be reduced;
- A change of objectives;
- A change in the personal situation of the client; or
- Any matter which may have material bearing on the investment portfolio.

Although only one portfolio manager is assigned to each account, the portfolio managers work closely together as a team to leverage each individual's experience. Each portfolio manager is assigned between 75 and 250 accounts reflecting between 25 and 100 separate client relationships.

Quarterly written reports are furnished to clients, which include the portfolio holdings, a list of transactions during the quarter and a general economic overview.

Item 14 Client Referrals and Other Compensation

With the exception of the broker-dealer referrals discussed in Item 12, we do not provide direct or indirect compensation for client referrals.

Please see Item 12 above regarding soft dollar benefits we receive from broker-dealers that execute our discretionary brokerage transactions and benefits we receive from certain broker-dealer custodians that we recommend or who otherwise serve as custodians to our clients.

Item 15 Custody

We require that all clients maintain their assets with independent, third party custodians. Such custodians are typically banks or broker-dealers. Clients retain such custodians on their own, although if asked, we will recommend a broker-dealer custodian.

Although we do not have physical custody of client assets, we are deemed to have constructive

custody of your assets if, for example, you authorize us to instruct your custodian to deduct our advisory fees directly from your account, if you grant us authority to move your money to another person's account or if one of our employees serves as trustee of your account (and you are not a family member or friend of such employee).

All clients should receive account statements on at least a quarterly basis directly from their custodians. We urge you to carefully review such statements and compare these official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. If you have any questions about your statements or notice any discrepancies, please contact us. We also ask that you contact us if you stop receiving at least quarterly statements from your custodian.

Item 16 Investment Discretion

We typically manage client accounts on a discretionary basis. This means that we, without obtaining client approval in advance, can:

- Buy and sell securities;
- Determine the amount of securities to be bought and sold;
- Determine which broker or dealer to use; and
- Negotiate commission rates.

Clients authorize this discretion in their investment management agreements with us. Clients may limit this discretion by providing us with investment guidelines or policies. Such guidelines or policies generally describe permitted and prohibited investments, strategies and techniques and may contain limitations or restrictions regarding the nature or amount of certain investments.

If a client's investment guidelines or policies are too restrictive for us to operate with our usual discretion, or if a client otherwise insists, we will agree with the client to treat the account as non-discretionary. This means we must typically obtain client approval before executing a transaction in the client's account.

Whether a client's account is discretionary or non-discretionary will be determined by the investment management agreement between the client and us, as well as any related documentation.

Item 17 Voting Client Securities

As agreed to in the applicable investment management agreements, we vote proxies only on behalf of our ERISA pension and profit sharing clients, the Funds, and certain clients subject to sub- advisory agreements. We recuse ourselves from voting proxies on any shares of our Funds that we own in client accounts. We have adopted and implemented proxy voting policies with

the goal of ensuring that all proxies are voted in the clients' best interest. As a general rule, we vote in favor of management on all proxy statement proposals considered to be non-controversial in nature. Proposals considered controversial or non-routine require special case by case consideration by our Investment Committee. Examples of such proposals include certain amendments to the articles of incorporation and corporate by-laws, acquisition or merger related proposals, significant changes in control, and proposals related to a change to incentive plans with the potential of increasing the outstanding common shares by 10 percent or more. Clients may direct how we vote a particular proxy solicitation within their account by providing written direction.

With respect to proxy voting conflicts, such as an issuer who is also an advisory client, our Investment Committee identifies and determines the materiality of any potential conflicts between our interests and those of our clients. Due to the size and nature of our business, it is anticipated that material conflicts of interest will rarely occur. Whenever a material conflict of interest does exist, we will address it in one of the following ways:

- The proxy will be voted according to the predetermined voting policy, provided that the proposal at issue is not one which the policy requires to be considered on a case-by-case basis and that exercising the predetermined policy may not result in a vote in favor of management of a company where the conflict involved is the fact that we do business with the company; or
- In conflict situations which cannot be addressed using the predetermined voting policy, we will resolve them by disclosing the conflict to clients and by obtaining the clients' consent before voting.

Clients for whom we do not have voting authority should ensure that they receive proxies and other solicitations from their custodian or transfer agent. Clients may contact us with questions regarding a proxy solicitation.

A copy of our complete proxy voting policies and procedures, as well as information concerning how we voted proxies for securities in their accounts, is available upon request using the contact information on page 1.

Item 18 Financial Information

We are required to provide you with certain information about our financial condition. We have no financial condition that impairs our ability to meet contractual and fiduciary commitments to clients, and we have never been the subject of a bankruptcy proceeding.