

Mairs and Power, Inc.  
Form ADV Part 2A

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March 31, 2011

**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 or by any state securities authority.**

**Additional information about Mairs and Power, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Item 2      Material Changes

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This brochure, dated March 31, 2011, is a new document prepared according to the SEC's current requirements and rules. As such, this brochure is materially different in structure and requires certain new information that our previous brochure did not. Our business practices have not changed.

In the future, this Item will discuss only specific material changes that are made to the brochure and provide clients with a summary of such changes. It will also reference the date of the last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC rules, we will ensure that you receive either the annually updated brochure or a summary of any material changes and an offer to deliver the annual update generally no later than the end of April each year. We may provide other disclosure information about material changes to our business practices as necessary.

Our brochure may be obtained free of charge by contacting us at (651) 222-8478.

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## Item 4 Advisory Business

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Mairs and Power, Inc. is an SEC-registered investment adviser based in St. Paul, Minnesota. SEC registration does not imply a certain level of skill or training. The firm was founded in 1931 and is 100 percent employee-owned. William B. Frels, Chief Executive Officer and Chairman of the Board, is deemed our principal owner because he holds greater than 25 percent of our outstanding shares.

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 account. The investment managers and the President 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.

We also serve as sponsor of and provide investment management services to two mutual funds- the Mairs and Power Growth Fund, Inc. and the Mairs and Power Balanced Fund, Inc. (the Funds). More information concerning the Funds, including advisory fees charged, is available in the Funds' prospectuses.

As of December 31, 2010, assets under management of the firm are comprised of \$4,039,510,887 client assets managed on a discretionary basis and of \$221,940,925 client assets managed on a non-discretionary basis.

## Item 5 Fees and Compensation

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Investment advisory fees are billed quarterly after services have been performed, based on the ending market value of assets, in accordance with the following annual fee schedule:

First	\$ 1,000,000	\$6.00 per \$1,000 (60 basis points)
Next	\$ 9,000,000	\$4.00 per \$1,000 (40 basis points)
Next	\$15,000,000	\$3.00 per \$1,000 (30 basis points)
Next	\$25,000,000	\$2.00 per \$1,000 (20 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.

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 and the management of other related accounts. Clients may elect to be billed directly for fees or 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.

Accounts initiated or terminated during a calendar quarter will be charged a prorated fee through the date of termination. Investment management agreements are required with all clients and may be terminated in writing by either party at any time. 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 waive the separate advisory fee on those advisory clients' assets invested in the Funds so that we avoid "double dipping" and have 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 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 address this conflict by completing periodic testing 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

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Our clients include individuals, high net worth individuals, institutional accounts, trusts, trust companies, pension and profit-sharing plans, health and welfare plans and our Funds. The minimum account size for advisory services is \$1,000,000. 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

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### *Methods of Analysis and Investment Strategies*

We generally manage accounts in 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*

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. 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. We seek to keep the accounts' assets reasonably fully invested at all times, maintain modest portfolio turnover rates and to moderate risk by investing in a diversified portfolio of equity securities.

#### *Balanced Account Strategy*

The objective of these accounts is generally to provide regular current income, the potential for capital appreciation and a moderate level of risk by investing in a diversified portfolio including bonds, preferred stocks, common stocks and other securities convertible into common stock. 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 higher rated investment grade fixed income securities. Lower rated debt securities may be purchased if, in the opinion of the investment manager, the potential rewards outweigh the incremental risks. The investment manager seeks to keep the accounts' assets reasonably fully invested at all times,

maintain modest portfolio turnover rates and moderate risk by investing in a diversified portfolio of equity and fixed income securities.

***Fixed Income Account Strategy***

The objective of fixed income portfolios is primarily to provide regular current income. Preference is given to higher rated investment grade fixed income securities. Lower rated debt securities may be purchased if, in the opinion of the investment manager, the potential rewards outweigh the incremental risks. The investment manager seeks to keep the account's assets reasonably fully invested at all times, 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. While 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 to equity and fixed income within a portfolio. For all strategies, a portfolio's performance depends on the active management by the investment 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 your portfolio is invested in the strategies and the securities set forth above, the following material risks may apply to your account.

***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. Common stocks are subject to greater fluctuations in market values than other asset classes. Your portfolio could lose money if a company in which it invests becomes financially distressed.

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 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. When interest rates rise, the value of a fixed-rate debt security generally decreases. When interest rates decline, the value of a fixed-rate debt security generally increases. 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.

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. Payment of interest and repayment of principal on asset-backed securities may be largely dependent upon the cash flows generated by the underlying assets backing the securities and, in certain cases, may be supported by letters of credit, surety bonds, or other credit enhancements. The value of asset-backed securities may be affected by various factors such as credit quality of the underlying assets, rate of principal payments, changes in interest rates, the availability of information concerning the pool and its structure, 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. Like other fixed income securities, when interest rates rise, the value of a mortgage-backed security generally will decline; however, when interest rates are declining, the value of mortgage-backed securities with prepayment features may not increase as much as other fixed income securities.

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. To the extent that the portfolio includes securities of foreign issuers which are listed on a United States securities exchange, 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

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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

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We provide advisory and certain administrative services to our Funds, for which they pay us. Certain of our principals also serve as officers and directors 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.

Certain of our principals serve as officers and directors 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.

We occasionally make contributions to certain clients and Fund shareholders that are charitable organizations.

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

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We have adopted a Code of Ethics which 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 employees to comply with all applicable federal security laws, prohibits misuse of material non-public information and regulates personal securities trading by employees.

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.

Employees may only purchase securities and Fund shares in accordance with restrictions specifically addressed in the Code of Ethics. Employees are prohibited from acting on knowledge that a Fund has taken or is considering taking action on a particular security where such an action is likely to influence the market price of that security. Employees are prohibited from executing personal transactions on a day during which a Fund has a pending “buy” or “sell” order in the security until the order is executed or withdrawn and for three calendar days after the day on which the order is executed.

In addition, all employees are prohibited from executing personal purchase transactions on any day in any stock that is on the list of securities the Investment Committee is recommending for purchase (the Recommended List). Portfolio managers are further prohibited from buying or selling any security for three calendar days after he or she has bought or sold the same security in a separately managed advisory client account. Each Fund manager is prohibited from buying or selling a security within at least seven calendar days before and after the Fund that he or she manages trades in that security. All trades by employees deemed “access persons,” in securities either held by a Fund or being considered for purchase by the Fund, require preclearance authorization before execution. Such trades shall be executed only during the last half hour of trading so as not to inhibit Fund transactions. The timing restrictions may be waived with respect to the Funds if, in the judgment of the Fund portfolio manager, the proposed transaction is so small relative to the volume of daily trading activity that its influence on the market price of the security would be immaterial. As a general rule, such a waiver would only be granted with respect to large cap stocks where the employee’s trade would be for less than \$25,000. The waiver is not available with respect to the Recommended List purchase prohibition.

The Code also requires all employees to submit quarterly, and the Chief Compliance Officer to review, their personal securities holdings and transactions.

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

As discussed above in Item 5, to the extent we invest client assets in our Funds, we do not charge clients a separate advisory fee on those assets.

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 such trading may be deemed a violation of insider trading laws and because it is our policy to pre-approve and monitor all of our transactions in a Fund.

## Item 12 Brokerage Practices

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### ***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 broker-dealers who 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.

### ***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 a periodic 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 will 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 generally effected separately for each account. In our discretion, however, 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. Such aggregation is more likely to occur with fixed income transactions. 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. Subject to the criteria of 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 utilizing the equity and balanced strategies 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 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 investment managers and President, 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 all research and brokerage services annually to make a determination 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. It also rates the broker-dealers using various factors including research, quality of execution, commissions/price and financial soundness. Each of these factors is given a different weighting, with the resulting overall score used 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. Examples of errors 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.

With respect to clients custodied at Charles Schwab & Co. (Schwab) who choose not to retain a gain resulting from correcting a trade error, Schwab will donate the amount of any gain \$100 or over to charity and keep gains under \$100. If the correction results in a loss of less than \$100, Schwab will absorb the loss to avoid its own additional expense and burden of processing small errors. We reimburse losses of \$100 or greater. Schwab's policy, therefore, relieves us of the financial obligation to reimburse losses of less than \$100.

## **Item 13      Review of Accounts**

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Depending on the circumstances, the frequency of account reviews ranges from "continuous" to four times yearly. Such account reviews are conducted by the investment managers and President, all of whom are familiar with the accounts' objectives. Factors which might trigger a review, in addition to the minimum four times yearly (quarterly) review, include:

- 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;
- 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 investment manager is assigned to each account, the investment managers work closely together as a team to leverage each individual's experience. Each investment



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 an inventory of assets, a list of transactions during the quarter and a general economic overview.

## Item 14 Client Referrals and Other Compensation

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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

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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

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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

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As agreed to in the applicable investment management agreements, we vote proxies only on behalf of our 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 amendments to the articles of incorporation and corporate by-laws, acquisition or merger related proposals, 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

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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.