



## MUTUAL FUNDS COMMENTARY

### Seeking Good Stocks – Our Ongoing Commitment

The fourth quarter saw the stunning election of Donald Trump as president followed by a very Brexit-like short-term market decline and recovery.

Villere portfolio managers have been fielding questions from the media and investors alike: how do we think this administration will affect the market in general and our portfolios in particular? We believe it is too soon to make any predictions with confidence; perhaps more importantly, though, Villere’s approach to security selection does not depend on interpreting daily economic and political events. Our analysis instead requires us to comprehensively screen companies, products and management teams.

#### What worked in the quarter for the equity component of the Villere Funds?

- **Flowers Foods.** Our top-performing stock for the quarter was Flowers Foods, which landed on its feet after the company settled its class action lawsuit with its distributors who alleged that as employees they were entitled to full benefits. The second largest baker in the U.S., Flowers rebounded from its disappointing performance during the period. While management did a good job running the business, expanding into new segments and trimming costs, we remain wary of the tough competition we’re seeing in the bakery segment.

#### VILLERE BALANCED FUND PERFORMANCE (%)

Expense Ratio: 0.89% Inception 9/30/1999<sup>1</sup>

12/31/2016	Total Return		Average Annualized			Cumulative
	Quarter	1 Year	5 Year	10 Year	<sup>1</sup> Since Inception	<sup>1</sup> Since Inception
Villere Balanced Fund	-1.24	9.99	7.79	6.41	7.69	258.85
Lipper Balanced Fund Index	0.68	7.20	8.32	5.01	5.13	137.09
S&P 500 Index	3.82	11.96	14.66	6.95	5.29	143.16

#### VILLERE EQUITY FUND PERFORMANCE (%)

Expense Ratio: Gross 1.11%; Net 1.17%\* Inception 5/31/2013<sup>2</sup>

12/31/2016	Total Return		Average Annualized			Cumulative
	Quarter	1 Year	5 Year	10 Year	<sup>2</sup> Since Inception	<sup>2</sup> Since Inception
Villere Equity Fund	-1.91	10.49	N/A	N/A	1.64	6.03
Lipper Mid Cap Growth Fund Index	0.68	6.27	N/A	N/A	8.62	34.51
S&P 500 Index	3.82	11.96	N/A	N/A	11.57	48.08

*Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance of the Funds may be lower or higher than the performance quoted. Current performance data to the most recent month end may be obtained by visiting [www.villere.com](http://www.villere.com).*

*Investment performance for Villere Equity Fund reflects fee waivers in effect. In the absence of such waivers, total returns would be reduced. The Fund imposes a 2.00% redemption fee on shares held for less than 60 days.*

*\*The advisor has contractually agreed to reduce its fees and/or pay the Fund’s expense through December 31, 2016.*

- **First Hawaiian.** Hawaii's oldest bank was also a stellar performer for the Villere Equity Fund. While we were unable to buy it for the Villere Balanced Fund at the price we wanted, we especially like the bank's market leadership within the strong Hawaiian market and the management team's focus on credit and risk mitigation.
- **Financial Engines.** This company offers personalized, workplace financial guidance to the employees of hundreds of Fortune 500 companies. The company rose 23.93% for the period as investors anticipated that the firm's growth would track with the broader, upward market. Financial Engines' business model is attractive: The firm has positioned itself to receive a potential rising revenue stream as accounts grow over time in exchange for offering predominately automated, low-cost fee-based advice to clients.

### What Didn't Work?

- **3D Systems.** The biggest performance detractor for the period was 3D Systems, which still struggles to realize the industrial application potential of its 3D technology. However, we believe shares declined through the period primarily as a result of tax-loss selling rather than anything specific to the company's performance. Meanwhile, we will watch for the margin improvements expected from recently hired CEO Vyomesh Joshi who previously led Hewlett-Packard's printing unit, and has surrounded himself with three other key hires from HP.
- **Gulfport Energy.** Another laggard was natural gas driller Gulfport Energy. We attribute this to an uncharacteristic mishandling of an acquisition by the management team. After Gulfport announced a \$1.85 billion acquisition of acreage in the "SCOOP" Basin in Oklahoma, the company announced a dilutive equity offering to fund the acquisition. Based on their prior success in the Utica Basin, we are predisposed to give them the benefit of the doubt and assume the new acreage will be productive. That said, the poor handling of the acquisition drove down the stock's share price and led to the resignation of Gulfport's CFO at year-end.
- **2U.** Shares of 2U, an online postgraduate education provider, dropped during the quarter in spite of solid results. Given its rapid growth (revenue is expected to increase by 30% in 2017), shares have been somewhat volatile. However, we expect the company to be cash

flow positive in 2017 as it potentially reaps the benefits of its maturing (and profitable) graduate programs. Originally purchased for Villere Equity Fund, we continue to believe in its potential and added a 2U position to Villere Balanced Fund as well at the beginning of the quarter.

### Other Actions

Longtime holding BE Aerospace announced that it is being acquired by Rockwell Collins for cash and stock. The transaction price will represent a 22.5% premium to the company's share price and is expected to close in the first half of this year.

In the beginning of the quarter, the acquisition of Epiq Systems closed, thus closing out that position in both funds and ending the activist chapter of Villere & Company's history. As we've stated we did not and do not intend to become activist investors, but maintain our right and duty to maximize value for our clients. We were pleased that the Epiq story ended in a profit for our investors.

What worked for Villere and its investors more than 100 years ago still works today: the pursuit of attractive companies that we believe demonstrate attractive financial metrics and good earnings potential. One caveat: As a result of what has been labeled the "Trump rally," we currently find ourselves holding more cash than usual – We will deploy this into additional opportunities as they arise for our investors.

### Living in Interesting Times

The long-term implications of Brexit were considered so compelling by Pension & Investments magazine; they recently named it "The economic story of the year,"<sup>1</sup> upstaging the U.S. election, the Department of Labor Fiduciary Rule and low interest rates.

In 2008, New York Times columnist Nicholas Kristof wrote "With the financial markets in disarray, I keep hearing people refer to the supposed Chinese curse: 'May you live in interesting times.'" In 2017, the global markets seem calmer than today's political institutions.

Looking back at 2016, our style of long-term investing got us through some difficult times. After the first 28 days of trading, the S&P 500 was down 10.54% in what was the worst start to a year ever. The second worst was all the way back in 1948 when the S&P 500 fell 9.48%.

We are telling clients what we've always told them- "hold tight." A change in administration doesn't translate to a change in

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investment philosophy. We believe that good stocks can always be found and that there is still value in strong companies regardless of who is in the White House.<sup>2</sup>

We do not anticipate radical changes in our holdings as a result. We believe the good companies we hold will do well in different environments. Those are the stocks we seek and what we've been able to find over the years – consistent, well-managed companies who dominate their niche that we believe can deliver good value to our clients. (Read more in our [Q&A with George Young, Portfolio Manager](#))

That's why the team at Villere sticks to its knitting on your behalf to attempt to find companies with low debt and strong cash flow that dominate their niche market, yet are slightly out-of-favor and undervalued.

For a thoughtful manager, “interesting times” can be the best times.

### Villere Balanced Fund

Designed for investors seeking a blend of primarily small and mid-cap stocks as well as bonds, Villere & Company launched its Balanced Fund in 1999. Since its inception, as you can see in the accompanying table, the Fund has easily outpaced the Lipper Balanced Fund Index.

As of December 31, the Fund returned -1.24% for the quarter, trailing its benchmark, the Lipper Balanced Index, which returned 0.68%.

Concerning our fixed income allocation, we are holding close to our minimum bond allocation as we believe that with interest rates near historical lows, bond prices seem to have nowhere to go but down. Consistent with that view, our bond portfolio currently has a duration of just over three and a half years. Our bond allocation is primarily designed to help temper potential downside portfolio risk. That said, 12% of the bond portfolio is below investment grade bonds—these are mainly situations where we know the company and management team from our equity research. We generally prefer to buy a bond when issued and hold it to maturity.

Villere Equity Fund Top Contributors & Detractors		
Top Performers — Equity 9/30/2016-12/31/2016	Portfolio Weight (%)	Return
Financial Engines, Inc.	4.95	23.93
Flowers Foods, Inc.	2.93	33.44
B/E Aerospace, Inc.	5.21	16.92
First Hawaiian, Inc.	2.08	30.46
Kearney Financial Corp.	3.76	14.40

Bottom Performers — Equity 9/30/2016-12/31/2016	Portfolio Weight (%)	Return
3D Systems Corp.	4.61	-25.96
Gulfport Energy Corp.	3.63	-23.40
TASER International, Inc.	5.71	-15.27
2U, Inc.	3.37	-21.26
LKQ Corp.	4.77	-13.56

Fund holdings are subject to change and should not be considered a recommendation to buy or sell any security.

Villere Balanced Fund Top Contributors & Detractors		
Top Performers — Balanced 9/30/2016-12/31/2016	Portfolio Weight (%)	Return
Financial Engines, Inc.	5.69	23.93
Kearney Financial Corp.	4.82	14.40
B/E Aerospace, Inc.	4.16	16.92
Pool Corporation	3.40	10.75
Flowers Foods, Inc.	1.15	33.44

Bottom Performers — Balanced 9/30/2016-12/31/2016	Portfolio Weight (%)	Return
3D Systems Corp.	4.09	-25.96
TASER International, Inc.	6.78	-15.27
Gulfport Energy Corp.	2.58	-23.40
LKQ Corp.	3.71	-13.56
Luminex Corp.	3.29	-10.96

Fund holdings are subject to change and should not be considered a recommendation to buy or sell any security.

### Villere Equity Fund

The Villere Equity Fund was launched in 2013 to meet the needs of investors who wanted an equity portfolio similar to the Balanced Fund but without the bonds. Emphasizing

opportunities for the growth potential found in small- to mid-sized companies, the Fund is grounded in the same disciplined approach Villere & Co. has been applying to its investments for more than a century.

As of December 31, the Fund returned -1.91% for the quarter, lagging its benchmarks, the Lipper Mid-Cap Growth Fund Index and the S&P 500 which returned 0.68% and 3.82% respectively.

Generally speaking, the stocks held in the Villere Equity Fund will tend to be similar (but not identical) to the equity portion of the Villere Balanced Fund. Individual stock weightings will also differ between the two funds.

### Summary

For Portfolio Manager Sandy Villere III, he believes one of the best places to find value lies in the small-to-midcap space. “There are a lot of inefficiencies in smaller cap stocks, which is where we specialize,” he said recently. Sandy was invited by MarketWatch late last year to discuss a small-cap selection that reflected the Villere approach. He provided an intriguing example of a mid-cap semiconductor company, Skyworks Solutions, Inc., that met our criteria and we believe is poised to benefit from projected sales in smart phones. (You are invited to read the full discussion [here](#).)

The Villere passion for identifying value was also in full view on Market Call’s MoneyLife program last October when Sandy discussed investment methodology and shared some of his insights about the equity market. Both of Villere’s funds tilt toward somewhat out-of-favor small-caps with modest debt and plenty of cash flow, whose prices look reasonable relative to their growth potential. (You can read more about it [here](#).)

During the fourth quarter, we lost our brother, uncle, father, partner, and most importantly friend, George G. Villere, to a long battle with cancer. While George had dialed back his involvement on the investment side of our business over the past decade, we are deeply saddened and miss his optimism and spirit daily.

Villere will maintain its core, long-term discipline as we continue to look past the distractions of the 24/7 news cycle and day-to-day market volatility with the goal of providing our investors with attractive portfolio strategies for meeting their long-term goals.

As always, we look forward to your calls and questions. Feel free to talk to us any time. Also, don’t forget to visit us at [www.villere.com](http://www.villere.com) for informative fact sheets, colorful downloads and other materials.

Thank you for your confidence in the Villere Funds.

St. Denis J. Villere, George V. Young,  
St. Denis J. Villere III, Lamar G. Villere, CFA

### Important Information

<sup>1</sup>Pension & Investments <http://www.pionline.com/article/20161226/PRINT/312269977/brexit-trump-victory-cap-unexpected-year>

<sup>2</sup>Q&A with George Young, Portfolio Manager <http://www.villere.com/media/pdfs/QA5.pdf>

***A mutual fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company, and may be obtained by calling 866-209-1129 or visiting www.villere.com. Read carefully before investing.***

**Mutual fund investing involves risk; loss of principal is possible. Investments in smaller and medium sized companies involve additional risks such as limited liquidity and greater volatility than large cap companies. The Balanced Fund will invest in debt securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower rated and non-rated securities present a great risk of loss to principal and interest than higher rated securities. The Equity Fund may invest in foreign securities. Foreign investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. The Equity Fund's ability to invest in initial public offerings (IPOs) involves a higher degree of risk than more seasoned companies.**

The opinions expressed above are those of St. Denis J. Villere, George V. Young, St. Denis J. Villere III, and Lamar G. Villere and are subject to change, are not guaranteed and should not be considered recommendations to buy or sell any security.

The Top 10 holdings in the funds as of 12/31/2016 were:

#### Villere Balanced Fund:

Financial Engines, Inc. (FNGN)	6.7%
Taser International, Inc. (TASR)	6.0%
Howard Hughes Corp. (HHC)	5.2%
Kearny Financial Corp. (KRNY)	5.0%
B/E Aerospace, Inc. (BEAV)	4.5%
Skyworks Solutions, Inc. (SWKS)	4.2%
3D Systems Corp. (DDD)	3.8%
Pool Corp. (POOL)	3.7%
Apache Corp. (APA)	3.7%
Visa, Inc. (V)	3.7%

#### Villere Equity Fund:

Financial Engines, Inc. (FNGN)	5.7%
Taser International, Inc. (TASR)	5.6%
Luminex Corp. (LMNX)	5.5%
B/E Aerospace, Inc. (BEAV)	5.5%
Genesee & Wyoming, Inc. (GWR)	5.1%
Skyworks Solutions, Inc. (SWKS)	4.7%
Apache Corp. (APA)	4.7%
LKQ Corp. (LKQ)	4.5%
Howard Hughes Corp. (HHC)	4.4%
Pool Corp. (POOL)	4.4%

All holdings in the portfolio are subject to change without notice and may or may not represent current or future portfolio composition. The mention of specific securities is not intended as a recommendation or an offer of a particular security, nor is it intended to be a solicitation for the purchase or sale of any security.

Cash flow is the net amount of cash and cash-equivalents moving into and out of a business.

Duration, expressed as a number of years, is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates.

#### Indexes:

**Lipper Balanced Index and the Lipper Mid Cap Growth Fund Index** are equally weighted performance index of the largest qualifying funds in their respective Lipper Categories. Each Lipper average represents a universe of Funds with similar investment objectives.

**S&P 500** is an unmanaged index which is widely regarded as the standard for measuring large-cap U.S. stock market performance. The stock index does not incur expenses and is not available for investment.

The Villere Funds are distributed by Quasar Distributors, LLC.

**Earnings growth is not representative of the fund's future performance.**