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Family-Style Success

The fourth generation of the Villere family shows that relatives can indeed get along — and achieve top performance.

By Ilana Polyak

There's an old saying about family business: It's best not to mix the two. But the Villeres, a family of money managers for the last 103 years, beg to differ.

The Villere & Co. team includes two uncles and three cousins who work together, live within a few blocks of one another and even carpool to their downtown New Orleans office. "We spend each morning and each evening in the car together," notes George Young, who started at the family firm in 1986.

Along with working to pick winning investments, the broker-dealer, founded in 1911 by St. Denis J. Villere – one of Young's great-grandfathers – has long focused on long-term relationships with its investors. For the last 14 years, small retail investors have been able to get in on the family affair, too. The Villere Balanced Fund (VILLX), a blend of stocks and bonds, launched in 1999. (This past year, the managers started another offering, the Villere Equity Fund, an all-stock portfolio to appeal to shareholders with more risk tolerance.)

The firm's separate account program has a $500,000 minimum, but the funds' entry point is just $2,000.

The managers run the Villere Balanced Fund in a growth-at-a-reasonable-price style. Although they don't want to pay a higher price-to-earnings ratio than the growth rate, says Young, they do look for companies with plenty of growth ahead of them.

Over the three-year period ended Feb. 4, the fund was up an average annualized 15.4% a year, placing it in the top 1% of the moderate growth category, according to Morningstar. For the last five years, the fund returned an annualized 21.9%, again besting 99% of competitors.

That showing has landed the fund on more investors' radar; the $1.2 billion fund has doubled its assets over the last six months. The managers, who prefer concentrated positions in small to medium-size companies, have increased the number of holdings to 25 from 20 to keep up with the added inflows; they've also started to purchase larger-cap names.

FUND MANAGER PROFILE

GEORGE YOUNG

Age: 55

Credentials: B.A. in English, University of Virginia

Experience: Partner, Villere & Co. (1986–present); broker, Morgan Keegan (1983–1986)

ST. DENIS J. (SANDY) VILLERE III

Age: 39

Credentials: B.S. in business, Southern Methodist University

Experience: Partner, Villere & Co. (1999–present); equity analyst, Gerard Klauer Mattison (1997–1999)

LONG HORIZON

For a firm that's 103 years old, it is probably no surprise that the managers take the long view of their portfolio. Their typical holding period is five years. "If we're going to own a business that long, we need to be very, very comfortable with it," says Lamar Villere, the newest member of the management team, who joined the family firm in 2013.

At any given point, the managers say, a stock can stay in the portfolio if they believe it can double its share price in the next five years.

Case in point: 3D Systems (DDD), the fund's top holding. A maker of 3D printers, the managers purchased the stock in late 2008 and early 2009. They had been watching the stock for some time, and pounced when the share price dipped below $4. "At the time, our hope was that it would go to $8 a share," Young says.

The stock did reach $8 — then kept going; it recently topped out at $96. "We think it can get to $160 in the next five years," he says. "If you can look out three to five years and see the upside, then the stock should be in the portfolio."

It may not be a smooth ride, however. In early February, 3D Systems issued lower-than-expected earnings guidance. The stock dropped 15% in one day, taking much of the sector along with it. But the managers are unfazed: Much of the diminished earnings are due to partnerships, such as a collaboration with Hershey to print candy, says St. Denis Villere III — who, like his father, goes by Sandy.

3D Systems "could have made the quarter, but they are deciding to build a franchise for the next five to 10 years," he says. "If you are a long-term shareholder, as we are, this is exactly what you want."

BONDS AS 'NECESSARY EVIL'

The firm is bound by prospectus to hold 25% to 40% of the fund's assets in bonds, even though these days they would rather not, given the rise in interest rates and expectations that they'll climb even higher. As of early February, the fund's bond holdings were toward the lower end of the mandate. "It's a necessary evil," says Young, noting that the firm's clients tend to be older investors with little tolerance for the ups and downs of an all-equity portfolio.

In order to fulfill their mandate but protect themselves from some of bonds' downside, the managers are taking advantage of their ability to hold up to 10% of the fixed-income allocation in high-yield bonds. One such issue is Whitney National Bank, an unrated bond that is due in 2017.

Because the bonds were unrated, they were illiquid when Villere bought them in 2009. When the New Orleans bank merged with Mississippi-based Hancock Bank in late 2010, the new entity offered to tender the bonds, but Villere chose to keep their bonds, whose yield to maturity is 4.4%.

When it comes to stocks, the managers say they look for a company that is the dominant player in its industry. Duopolies fit well into that thesis. One example is auction house Sotheby's (BID). Like other luxury brands, Sotheby's suffered during the last recession while art buying was on hold. But art sales have come roaring back.

"Between Sotheby's and Christie's, they have something like 90% of the auction market," Young says. He believes Sotheby's can thrive as long as there is death, divorce, debt and discretionary spending — what he calls the 4 D's of art buying. So far, the bet has paid off. Over the last five years, Sotheby's stock is up 42.7% a year annualized, according to Morningstar.

VILLERE BALANCED FUND

Ticker: VILLX

Inception of fund: September 1999

Style: Moderate allocation

AUM: $1.2 billion

3- and 5-year performance as of Feb. 4: 15.4%, 21.9%

Expense ratio: 0.90%

Front load: None

Minimum investment: $2,000

Alpha: 6.33 vs. Morningstar moderate target risk

Visa (V) is another such play. Along with rival MasterCard, the card issuer was battered in 2011 on the heels of the Dodd-Frank Act's Durbin Amendment, which called for debit card companies to cut interchange fees. "The banks did cut their interchange fees, but nowhere near what the market was pricing into the stock at the time," Young says. Visa has "a wonderful franchise, and it was able to withstand" the regulatory change, he adds.

What's more, Visa has a larger footprint in Europe, a play that gives the Villere Balanced Fund some international exposure since it is not allowed to hold international names.

Over the last three years, Visa is up an average 44% a year.

While the portfolio is adding bigger companies, the Villere managers are quick to note that they still have a good share of small fry. They rely on a network of analysts and business associates to tip them off to potential names that might suit their criteria.

Conn's (CONN), a Beaumont, Texas-based retailer of electronics and home furnishings with a $2 billion market cap, fits the bill. With about 80 stores throughout the South and Southwest, Conn's may seem like yet another purveyor of 60-inch plasma TVs. But the stores operate on a decidedly different business model. Most of their sales — about two-thirds — are dependent on in-store financing. In other words, their customers would not be able to buy their products without the loans that Conn provides.

"That way, they are able to capture a lot more potential sales than they otherwise would," Lamar Villere says.

Conn's has also been updating new stores and plans to open 15 locations this year, he adds. Over the last five years, the stock is up 37.4% a year. FP

Ilana Polyak, a *Financial Planning* contributing writer in Northampton, Mass., has also written for *The New York Times, Money* and *Kiplinger's*. Follow her on Twitter at @ilanapol.

Important Notes
Opinions expressed are those of the author or Villere & Co., and are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice. References to other mutual funds should not be interpreted as an offer of these securities.

Villere Balanced Fund Performance as of 3/31/14:
1 year: 15.35%, 5 year: 22.95%, 10 year: 8.53%, Since Inception (9/30/1999): 8.53%. Expense Ratio: 0.92%

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 fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained at www.villere.com or by calling 866-209-1129.

Villere Balanced Fund Top 10 Holdings as of 3/31/14:
CONNS Inc: 3.6%, Howard Hughes Corp: 3.4%, B/E Aerospace Inc: 3.3%, Pinnacle Foods Inc: 3.3%, Sanchez Energy Corp: 3.2%, Leggett & Platt Inc: 3.2%, Flowers Foods Inc: 3.1%, Edwards Lifesciences Corp: 3.1%, LKQ Corp: 3.0%, Express Scripts: 3.0%.

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

Each Morningstar category average represents a universe of funds with similar investment objectives. Among Moderate Allocation Funds according to Morningstar as of 3/31/14, the Villere Balanced Fund was ranked in the top 11% for 1 year among 866 funds, 1% for 5 years among 662 funds and 2% for 10 years among 433 funds, based on total returns. Morningstar Numeric Rankings represent a fund's total return rank relative to all funds that have the same Morningstar Category. Percentile ranking is based on the total number of funds ranked and the Morningstar total return, which includes both income and capital gains or losses and is not adjusted for sales charges or redemption fees. The highest percentile rank is 1 and the lowest is 100.

S&P 500 is an unmanaged index which is widely regarded as the standard for measuring large-cap U.S. stock market performance. Please note: one cannot invest directly in an index.

Alpha measures performance on a risk-adjusted basis by taking the volatility (price risk) of a mutual fund and comparing its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

Villere Balanced Fund: Investments in smaller and medium sized companies involve additional risks such as limited liquidity and greater volatility. 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.

Villere Equity Fund: Equity investments are subject to market risk. 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. Investments in small-and-mid cap companies are subject to greater volatility. The Fund's ability to invest in initial public offerings (IPOs) involves a higher degree of risk than more seasoned companies.

Diversification does not assure a profit or protect against loss in a declining market.

Mutual fund investing involves risk. Principal loss is possible. While the fund is no-load, management fees and other expenses still apply. Please refer to the summary prospectus or prospectus for further details.

The Funds' investment objectives, risks, charges, expenses and other information are described in the prospectus or summary prospectus, which must be read and considered carefully before investing. You may download the prospectus at www.villere.com or obtain a hard copy by calling 866-209-1129.

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