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Q&A WITH SANDY VILLERE
Portfolio Manager

Q. The Fed is expected to raise rates shortly in the first of three moves. What do you think they hope to accomplish?

A. The Fed is trying to balance growth with inflation, so once inflation gets to about 2 percent, the Fed has to start to methodically raise rates. If, they did not raise interest rates and continued to let the economy boom, we could get into a situation similar to the 1970s when dramatic inflation caused them to have to raise rates very quickly, which could push us into recession. They're trying to avoid that by making adjustments now.

Q. How will this impact small cap companies?

A. Rising interest rates can be good for small cap companies for a number of reasons. The first is that rising rates could mean a stronger dollar, which would make it more difficult for larger multinational companies that are trying to sell more expensive goods and services abroad.

Small caps tend to be domestic only, so they're not typically impacted as strongly. If you go back to the last six rate hike cycles, you'll see that 12 months after the first rate hike, on average, the Russell 2000 has appreciated about 15 percent. So with the first rate hike being December 2016, history would lead us to believe that we could get a similar return on average for the next 12 months.

Q. What are the characteristics of the small cap companies you believe could benefit from a rate increase?

A. We believe companies that are growing quickly and have a domestic focus will fare well. When rates are rising, these companies will be focused on the domestic economy rather than abroad.

Q. You've talked about beaten-up companies possibly benefitting as 2017 moves forward. What are the characteristics of a "beaten-up" company?

A. We look for companies that have high quality management teams, but that are trading at multiples that are at a discount to their growth rate. Typically, a high quality company can trade at 18 or 19 times earnings, growing at something like 20 percent. A short-term issue may cause it to trade at a 15 or 16 multiple. We see that as a buying opportunity, if it is still growing at 18 or 19 percent.

Q. Why do you think these "beaten-up" companies have potential in the near term?

A. I don't believe that potential has to do with interest rates, but if there's a short-term issue with a particular business, that's when we want to buy. People tend to overreact on short-term bad news, and we believe that can be an excellent time to buy a high-quality company on a pullback.

Q. Can you give some examples of companies with those characteristics?

A. Yes, two companies come to mind: Acuity Brands and Taser.

Acuity Brands is the number one manufacturer of lighting fixtures in North America, which is about a $14 billion market estimated to continue growing to about $19 billion by 2018. This is a pure play on LED lightbulbs in North America. We think it's very much in the early stages as about 95 percent of lighting fixtures are non-LED right now. It sold off recently about 28 percent because of two consecutive misses on earnings and people think that the LED cycle is not happening. We feel very confident that over the next three to five years it will, and it offers us significant potential to buy a high-quality company on a pullback.

Taser International, a manufacturer and distributor of body cameras and digital evidence management solutions, is also growing quite rapidly. They recently had higher operating expenses, so while they exceeded expected revenues by about $10 million, the stock has pulled back about 18 percent and offers an excellent opportunity to get into what we think of as a "software as a service business" while they continue to sell their body cameras and have had great recurring monthly revenue streams.

Q. What do you think the rising rates mean for investors overall?

A. I think the probable rate hikes can be good for smaller companies and more difficult for larger multinational companies. In our opinion, performance could be very good for small caps over the next 12 months.

Specifically, when you look into different sectors, rising rates have the potential to be a very good backdrop for financials. The large money center banks should finally experience some net interest margin expansion, which they haven't had for a long time. In contrast, those same rising rates may be very difficult for sectors like telecom and utilities that act more like bonds and are likely to have a difficult time given that scenario.

Q. Regarding the Villere Balanced Fund, do you foresee any shifts in the fixed income component of the portfolio?

A. Believing that rates are going to go up at least three times in 2017, we have stayed as short as we can on the duration of our bond portfolio. We can hold between 25 and 40 percent bonds in our fund, and we have elected to be at the low end and stay closer to 25 percent, keeping the duration as low as possible. Once rates come up, we are likely to extend that duration and increase our exposure to fixed income, but not until that happens.

Q. **Since the fund can hold all size companies, does the fund currently tilt to small, mid or large cap?**

A. Generally, the Villere team is a big believer in smaller cap companies. We really like them right now for a number of reasons. The first is that we believe in reversion to the mean, and in 2014 and 2015, there was dramatic outperformance by large cap over small cap. In 2016, small outperformed large, and we believe that 2017 will continue to favor small cap.

RISK CONSIDERATIONS

One cannot invest directly in an index.

Mutual fund investing involves risk; principal loss is possible. Investments in smaller and medium sized companies involve additional risks such as limited liquidity and greater volatility. 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 through ADRs. 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.

Small- and Medium-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies.

Russell 2000 Index consists of the smallest 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization and serves as a benchmark for small-cap stocks in the United States.

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

Fund holdings and sector allocation are subject to change at any time and should not be considered a recommendation to buy or sell any security. Click here for current top 10 holdings of the Villere Balanced Fund. Click here for the current top 10 holdings of the Villere Equity Fund.

You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. This and other important information is contained in the Fund's summary prospectus and prospectus, which can be obtained by calling 866-209-1129. Read carefully before you invest.

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

Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Past performance does not guarantee future results.

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