

## 3 Small-Cap Stocks to Consider: Lamar Villere

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Lamar Villere, portfolio manager and partner at Villere & Co., loves to buy when people are selling.

Villere & Co. is a fourth-generation family owned and operated money management firm with \$2.2 billion in total assets. The New Orleans-based firm manages two mutual funds the Villere Balanced Fund (VILLX) and the Villere Equity Fund (VLEQX).

Generally, Villere prefers small-caps.

"We don't really have a small-cap bias, as much as large-caps are too expensive," he told ThinkAdvisor. "We have trouble finding them attractive. And they're not, in a lot of cases, they're not really growing."

Villere said the firm's portfolios are also much more concentrated than most. They tend to own 20-25 stocks rather than owning 100-200 stocks, he said.

As Villere describes it, "We're basically the opposite of passive."

The stocks Villere looks for are companies with low debt and a strong cash flow and that dominate their niche.

"Generally we want companies that are growing double digits," Villere told ThinkAdvisor. "Companies that are, we think, have a very strong competitive landscape, a duopoly or something like that, where they've got a large moat around the business."

Villere is also looking for companies that are trading at a reasonable price, which he said has become increasingly difficult over the last couple of years.

"Generally speaking, in the last probably two years, things that we've bought, we've bought on the heels of some news story, something that has caused the stock to drop," Villere explained. "We'll go in and do a lot of work to figure out if that's just noise or if it's real."

Villere discussed three companies and stocks he likes right now, two of which he's been able to buy during market reactions to news stories.

### Axon Enterprise (AAXN)

Axon, formerly known as Taser, is a dominant player in non-lethal weapons and has a growing body camera business.

"If there's going to be an incident, you'd rather A) it be non-lethal and B) have a record of it from the officer's perspective," Villere said. "And Taser is a market leader in both of those things. It seemed like to us, that's a great opportunity."

Last month, Axon announced that they would equip every officer in the U.S. with a free body camera for a one-year trial including data storage, support and training.



"The market reacted negatively to it because they thought it was going to be super expensive," Villere said. "We'd already owned the stock, but it dipped so we bought a bunch more. Since then, they've had great results."

### 2U (TWOU)

2U provides online education and partners with top universities – like NYU, Yale, Northwestern, Cal-Berkeley, among others – to create online graduate degrees.

"[2U] keeps 60+% of the money, the colleges get the rest. The colleges love it ... because it's actually profitable," Villere said.

They recently acquired a South African company called GetSmarter, which offers non-degree certificate programs.

"It got beat up because it made an acquisition and they said the acquisition was going to be diluted," Villere said.

However, the new partnership offers an international footprint and new relationships with Harvard, Cambridge, MIT and others.

### Howard Hughes Corp (HHC)

Howard Hughes Corp develops and operates master planned communities. It built Woodlands and Bridgeland in Houston, and Summerlin in Las Vegas.

It is also developing a residential tower in Hawaii that is 93% sold. Villere said, "it's basically a town that's vertical."

The firm is currently developing in South Street Seaport in New York City, which Villere toured during his visit to New York. Villere said many leases are structured with percentage of sales rent, which provides upside potential.

**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.

<b>Average Annualized Returns as of 3/31/17</b>	1 yr.	5 yr.	10 yr.	Since Inception (9/30/1999)
Villere Balanced Fund	9.99%	6.48%	6.57%	7.79%
Lipper Balanced Fund Index	10.22%	7.56%	5.28%	5.30%
S&P 500 Index	17.17%	13.30%	7.51%	5.56%

Villere Balanced Fund Expense Ratio: 0.98%.

	1 yr.	5 yr.	10 yr.	Since Inception (5/31/2013)
Villere Equity Fund	10.89%	N/A	N/A	2.48%
Lipper Mid Cap Growth Funds Index	16.55%	N/A	N/A	10.24%
S&P 500 Index	17.17%	N/A	N/A	12.50%

Villere Equity Fund Expense ratio: Gross 1.26%

***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](http://www.villere.com) or by calling 866-209-1129.***

***Earnings growth is not a measure of the Fund's future performance.***

**Villere Balanced Fund Top 10 Holdings as of 3/31/17:**

Taser International, Inc.: 6.0%, Skyworks Solutions, Inc.: 5.9%, Howard Hughes Corp.: 5.7%, Financial Engines, Inc.: 4.9%, 3D Systems Corp. 4.7%, Steris PLC: 3.9%, LKQ Corp.: 3.7%, 2U, Inc.: 3.5%, Euronet Worldwide, Inc.: 3.5%, Kearny Financial Corp.: 3.5%

**Villere Equity Fund Top 10 Holdings as of 3/31/17:**

Financial Engines: 6.5%, Skyworks Solutions: 5.9%, 2U: 5.2%, Axon (Taser): 5.1%, Euronet Worldwide: 4.8%, Pool Corp.: 4.8%, Luminex: 4.8%, Genesee & Wyoming: 4.8%, Western Digital: 4.7%, 3D Systems: 4.5%

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

Lipper Balanced Index (Lipper Bond Index) is an equally weighted performance index of the largest qualifying funds in the Lipper Category. The Lipper Mid-Cap Growth Funds Index is an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Mid-Cap classification. The indices are unmanaged and returns include reinvested dividends. S&P 500 is an unmanaged index which is widely regarded as the standard for measuring large-cap U.S. stock market performance. One cannot invest directly in an index.

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