



## MUTUAL FUNDS COMMENTARY

### Thinking Big about Small Companies.

The third quarter concluded with strong equity strength across the board with both the S&P 500 and Russell 2000 reaching new highs on the last trading day for the period.

While small-cap stocks lagged the broader market on a year-to-date basis, they managed to shake off their doldrums in the third quarter and outperform their large company counterparts.

Speaking of doldrums, the string of hurricanes that devastated the U.S. and Puerto Rico, trouble over North Korea and concerns over the debt limit and the Federal Reserve balance sheet sent prices up for perceived “safe haven” favorites like gold and U.S. treasuries.

During our August press appearances at MarketWatch<sup>1</sup> and CNBC,<sup>2</sup> – we reflected on how the stretch for yield and

stability following the 2008 financial crisis had sent many investors flocking to larger, more established companies. In contrast, gradually rising rates and strengthening U.S. fundamentals underscored the third quarter appeal of domestic small-cap companies that generate most of their revenue and earnings right here at home. In fact, one such company, the American auto parts company, LKQ Corporation proved to be one of our portfolio’s strongest performance contributors.

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

- 2U. Similar to the third quarter of 2016, 2U is on the leader board yet again, with shares up 19.4% for the period. The online education company continued to integrate its recent acquisition of GetSmarter, which is helping the

#### VILLERE BALANCED FUND PERFORMANCE (%)

Expense Ratio: 0.98%

Inception 9/30/1999<sup>1</sup>

9/30/2017	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	-0.18	6.45	6.59	6.41	7.80	286.80
Lipper Balanced Fund Index	3.17	10.91	8.23	5.25	5.48	161.17
S&P 500 Index	4.48	18.61	14.22	7.44	5.84	177.79

#### VILLERE EQUITY FUND PERFORMANCE (%)

Expense Ratio: 1.26%

Inception 5/31/2013<sup>2</sup>

9/30/2017	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	-0.82	4.33	N/A	N/A	2.81	12.77
Lipper Mid Cap Growth Fund Index	4.29	19.80	N/A	N/A	11.46	60.07
S&P 500 Index	4.48	18.61	N/A	N/A	12.90	69.17

*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.*

company enter the non-degree market with top tier university partnerships. Courses from the Universities of Cambridge and Chicago, Harvard, the London School of Economics and many more are available to remoted students. In early September, the company successfully sold 3.7 million of its shares to the public to fund the GetSmarter transaction, bolstering its balance sheet and adding new investors.

- **Visa.** Shares of Visa rose 12.4% during the quarter, as the company reported revenues and earnings well ahead of expectations. Further, investors became optimistic that tax reform could lead to a significant jump in profitability for the company.
- **LKQ.** In late July, alternative auto part supplier LKQ announced second quarter results that were substantially ahead of analyst expectations. Analysts responded positively as well to LKQ's hiring of Varun Laroyia as Chief Financial Officer in September. Laroyia is expected to grow the firm's footprint in Europe to match its dominance in the United States. Shares rose 9.2% during the period.

#### What Didn't Work?

- **3D Systems.** Unfortunately, three-dimensional printer manufacturer 3D Systems gave up much of its year-to-date gains during the quarter as investors were disappointed with the company's results. Following a visit to 3D's healthcare operations in Colorado during the quarter, we remained confident in the firm's vision and continue to be optimistic about the company's future.
- **Acuity.** Shares of LED lighting supplier Acuity fell as the company was impacted by a perfect storm caused by increased competition from Chinese manufacturers, an apparent slowdown in the industry – and an actual storm from the heavy hurricane activity that swept past the Georgia-based firm, hindering sales during August and September.
- **Axon.** Shares of Axon (formerly known as "Taser") slipped despite solid second quarter results, as investors grew concerned over some recent profitability trends. We continue to think that investors are missing the long-term outlook at Axon, which requires the company to accept lower margins in the short term as it grows its installed base of body worn cameras. Our analysis still shows that Taser's current dominance in the highly

profitable body camera business will lead to stronger, recurring revenues in the future.

#### Other Actions

The only meaningful change to the portfolios was the addition of Ebix to the Villere Equity Fund, a software provider focused on the insurance industry. Additionally, Ebix has been aggressively growing its footprint in the Indian money transfer market, having acquired three similar business entities during the third quarter.

#### 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. While short-term performance has slightly lagged the peer group, as you can see in the accompanying table, the Fund has easily outpaced the Lipper Balanced Fund Index since its inception.

As of September 30th, the Fund's performance was slightly negative for the quarter at -0.18% while its benchmark, the Lipper Balanced Fund Index advanced 3.17%, while the S&P 500 Index rose 4.48% for the period.

Villere Balanced Fund Top Contributors & Detractors		
Top Performers — Balanced 6/30/2017-9/30/2017	Portfolio Weight (%)	Return
2U, Inc.	4.82	19.44
Visa Inc. Class A	3.91	12.40
Skyworks Solutions, Inc.	6.75	6.53
LKQ Corporation	3.64	9.23
Euronet Worldwide Inc.	4.19	8.49

Bottom Performers — Balanced 6/30/2017-9/30/2017	Portfolio Weight (%)	Return
3D Systems Corporation	2.33	-28.40
Axon Enterprise Inc.	6.68	-9.82
Acuity Brands, Inc.	3.26	-15.69
Leggett & Platt, Inc.	3.30	-8.42
Pool Corporation	3.12	-7.68

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

VILLERE & CO.

Investment Counsel Since 1911™

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 under three years. Our bond allocation is primarily designed to help temper potential downside portfolio risk. That said, 8% of the bond portfolio is comprised of below investment-grade bonds, consisting mainly of situations in which we know the company and management team from our equity research. As we have noted before, our fixed-income preference is to buy a bond when issued and hold it to maturity.

### Villere Equity Fund

Generally speaking, the stocks held in the Villere Equity Fund will tend to be similar to the equity portion of the Villere Balanced Fund, although individual stock weightings may differ between the two funds.

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

As of September 30<sup>th</sup>, the Fund returned -0.82% for the quarter, lagging its benchmark Lipper Mid-Cap Growth Fund Index return of 4.29% and the S&P 500 which returned 4.48%

#### Villere Equity Fund Top Contributors & Detractors

Top Performers — Equity 6/30/2017-9/30/2017	Portfolio Weight (%)	Return
2U, Inc.	4.84	19.44
Visa Inc. Class A	4.99	12.40
Genossee & Wyoming, Inc. Class A	4.89	8.22
LKQ Corporation	4.88	9.23
STERIS Plc.	4.91	8.86

Bottom Performers — Equity 6/30/2017-9/30/2017	Portfolio Weight (%)	Return
3D Systems Corporation	4.52	-28.40
Acuity Brands, Inc.	4.56	-15.69
Axon Enterprise Inc.	5.31	-9.82
Pool Corporation	4.46	-7.68
Leggett & Platt, Inc.	3.81	-8.42

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

### Summary

While the funds underperformed their benchmarks for the quarter, it's worth remembering how important discipline and focus is to the successful pursuit of any long-term goal. Every day, we apply our proven, fundamental investment principles to your portfolio in our quest for opportunities that offer above-average long-term growth potential.

We continue to select portfolio securities based on each company's long-term expectations for profitability and growth. Our recent visit at 3D with their management team, for example confirmed our belief that despite their difficult quarter, they have the talent, resources, commitment and innovative spark to succeed in their given industry.

Our goal as always is to identify opportunities that may be overlooked by the broader Wall Street consensus that we believe have the potential to provide you with an optimal blend of risk-adjusted. This vital aspect of active management can sometimes be lost to investors who simply rely on following the herd that is ambling along with passively managed, index-based ideas.

As always, feel free to contact us as we look forward to your calls and questions. And please visit us at [www.villere.com](http://www.villere.com) to download our fact sheets and other materials, as well as to access our video and radio interviews.

Thank you for your continued interest 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>MarketWatch <http://www.marketwatch.com/story/small-cap-stocks-are-trailing-as-trump-trade-fades-in-2017-but-this-list-might-help-2017-08-07>

<sup>2</sup>CNBC [http://www.villere.com/cnbc\\_082417.html](http://www.villere.com/cnbc_082417.html)

***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](http://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.**

**Active investing has higher management fees because of the manager's increased level of involvement while passive investing has lower management and operating fees. Investing in both actively and passively managed mutual funds involves risk and principal loss is possible. Both actively and passively managed mutual funds generally have daily liquidity. There are no guarantees regarding the performance of actively and passively managed mutual funds. Actively managed mutual funds may have higher portfolio turnover than passively managed funds. Excessive turnover can limit returns and can incur capital gains.**

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 9/30/2017 were:

**Villere Balanced Fund:**

Skyworks Solutions, Inc.	(SWKS)	6.8%
Axon Enterprise, Inc.	(AAXN)	6.6%
2U, Inc.	(TWOU)	5.5%
Euronet Worldwide, Inc.	(EFT)	4.3%
Financial Engines, Inc.	(FNGN)	4.3%
Visa, Inc.	(V)	4.1%
Kearny Financial Corp.	(KRNY)	3.9%
LKQ Corp.	(LKQ)	3.7%
Western Digital Corp.	(WDC)	3.6%
Steris PLC	(STE)	3.6%

**Villere Equity Fund:**

Skyworks Solutions, Inc.	(SWKS)	6.2%
Euronet Worldwide, Inc.	(EFT)	5.4%
Genesee & Wyoming, Inc.	(GWR)	5.2%
Financial Engines, Inc.	(FNGN)	5.2%
Visa, Inc.	(V)	5.1%
LKQ Corp.	(LKQ)	5.1%
Axon Enterprise, Inc.	(AAXN)	5.1%
Steris PLC	(STE)	5.0%
Western Digital Corp.	(WDC)	4.9%
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.

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.

Investment-grade is a rating that indicates that a municipal or corporate bond has a relatively low risk of default.

**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.

**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.

It is not possible to invest directly in an index.

The Villere Funds are distributed by Quasar Distributors, LLC.

VILLERE & CO.

Investment Counsel Since 1911<sup>SM</sup>