

# Market Review: Small-Cap and Technology Stocks Led the Way

Led by technology and small-cap stocks, all the major equity market indexes rose in the second quarter. The technology-dominated NASDAQ gained 6.31% and the Russell 2000 Index was up 7.75%, while the S&P 500 increased 3.43%. With the Federal Reserve committed to raising interest rates, the bond market struggled as interest rates rose and investment-grade corporate credit spreads widened. The Bloomberg Barclays Int. Govt/Credit Bond Index increased 0.01%.

The reversal of the market leadership that has occurred in 2018 was aided by a number of factors, including attractive valuations in small-cap stocks, the relative strength of the U.S. economy, tax cuts that have benefited domestic small-cap companies as they pay much higher taxes than their comparable large-cap companies, and trade tensions favoring smaller U.S. companies as they have less overseas exposure than larger companies.

The Trump administration has been very pro-growth with lower taxes and deregulation, which has helped small caps and we believe this will continue. Larger companies have been repatriating money to the U.S. and that cash can also be used to acquire smaller companies.

While, the stock market bounced back from the 10% market correction in February, it was a bumpy ride and the high volatility continued in the second quarter. We are in the late stages of one of the longest bull markets in U.S. history, and this year's volatility comes as investors are reacting to news headlines and wondering how and when the bull market may end.

In June, the Federal Reserve raised interest rates for the second time this year and the seventh time since 2015. The Fed is raising interest rates to battle inflation which should boost the value of the dollar, and favors small caps relative to multi-national companies as their goods become more expensive abroad.

**“Stock selection continues to be the key reason why the Funds have significantly outperformed the benchmarks in 2018.”**

## VILLERE BALANCED FUND PERFORMANCE (%) VILLX

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

6/30/2018	Total Return				Average Annualized		Cumulative
	Quarter	YTD	1 Year	5 Year	10 Year	'Since Inception	'Since Inception
Villere Balanced Fund	4.80	9.54	10.70	5.58	9.31	8.08	328.97
Lipper Balanced Fund Index	1.13	0.14	7.01	7.60	6.44	5.46	170.90
S&P 500 Index	3.43	2.65	14.37	13.42	10.17	6.11	204.10
Bloomberg Barclays Int. Govt/Credit Bond Index	0.01	-0.97	-0.58	1.60	3.08	4.32	120.96

Expense Ratio: 0.94%

## VILLERE EQUITY FUND PERFORMANCE (%) VLEQX

INCEPTION 5/31/2013<sup>1</sup>

6/30/2018	Total Return				Average Annualized		Cumulative
	Quarter	YTD	1 Year	5 Year	10 Year	'Since Inception	'Since Inception
Villere Equity Fund	6.22	12.03	12.14	4.87	N/A	4.90	27.50
Lipper Mid Cap Growth Index	4.40	7.79	18.92	12.99		12.57	82.53
S&P 500 Index	3.43	2.65	14.37	13.42		12.89	85.18

Expense Ratio: 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 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.*

## Villere Portfolio Review—Equities

Bottom-up company research and stock selection continue to be central to our process and strategy.

Top contributors to the performance of the Funds in the second quarter included Axon Enterprise, Financial Engines, and Apache Corp. Detractors from performance included LKQ Corp., Western Digital, and Cypress Semiconductor.

During the quarter, we purchased a small position in Weight Watchers Intl.—a global wellness company with one of the world's leading commercial weight management programs—in the Balanced Fund. We also purchased First Hawaiian—a bank holding company that owns Hawaii's oldest and largest financial institution—in the Balanced Fund (First Hawaiian was already in the Equity Fund). We sold Acuity Brands in both Funds.

### 2ND QUARTER TOP CONTRIBUTORS

#### Axon Enterprise

Axon Enterprise (formerly Taser Intl.) makes some of the most indispensable products in law enforcement, providing Taser non-lethal weapons and Axon body cameras around the world. Axon's stock continued its strong performance in the second quarter, up 60.7%.

Robust growth in the weapons business market, higher earnings guidance, strong demand for new orders, Axon's subscription revenue model for large video data storage, surging growth in Axon Fleet In-Car Video System, and the acquisition of its closest body camera competitor, all contributed to the strong performance in the first half of 2018. When the National Sheriffs Association met here in New Orleans in June, the key themes were technology and legal affairs.

#### Financial Engines

Financial Engines is a provider of technology-enabled portfolio management services and investment advice to participants in employer-sponsored retirement plans. The stock gained 28.5% in the second quarter.

At the end of April, it was announced that Financial Engines had agreed to be acquired by private equity firm Hellman & Friedman for a 33% premium to the prior day's closing stock price. As part of the deal, Edelman Financial Services—Hellman & Friedman is majority owner—was combined with Financial Engines. We had found Financial Engines' stock to be undervalued for a long time, and were pleased to see that our patience paid off and the value was recognized.

#### Apache Corp.

Apache Corp. is an oil and gas exploration and production company with operations in the United States, Egypt and the United Kingdom. Apache stock was up 22.2% in the second quarter fueled by higher oil prices and a production increase for the third straight quarter. Apache management has also focused on cutting unnecessary expenses, which has improved the company's profitability.

Apache's Alpine High discovery in West Texas in 2016—an overlooked part of the otherwise expansive Permian Basin, the top U.S. oil field with multiple layers of oil-bearing rock—is viewed as a potential game changer for the company. Estimated to hold massive oil and natural gas reserves, the wells are expected to drive strong economics and top-tier returns. Production volumes have increased substantially in 2018 as the development of Alpine High has kicked into gear.

### 2ND QUARTER TOP DETRACTORS

#### LKQ Corp.

LKQ Corporation is a US-based provider of alternative and specialty parts to repair and accessorize automobiles and other vehicles. The stock was down 15.9% for the quarter after reporting lower first-quarter earnings than expected and a reduction in full-year earnings guidance. However, we believe LKQ is well positioned as the industry continues to grow and insurance companies compete on price and need to be cost effective on claims expenses. One of the easiest ways to do this is to use alternative parts when appropriate. As the largest player in a fragmented industry, LKQ enjoys economies of scale and parts availability that competitors cannot match, and can often provide savings of 50% or more over original equipment.

#### Western Digital Corp.

Western Digital Corp. is a computer data storage company and one of the largest computer hard disk drive manufacturers in the world. Despite exceeding analyst forecasts in the earnings release, Western Digital's first-quarter performance and guidance for the second quarter failed to meet the market's expectations, and its shares fell 15.6%. However, we believe that Western Digital should benefit from the growth in enterprise cloud services and trends like the Internet of Things, which is the connection of all sorts of everyday devices to the internet so that users can track data or automate their lives.

#### Cypress Semiconductor Corp.

Cypress Semiconductor Corp. is the leader in advanced embedded solutions for automotive, industrial, smart home appliances, consumer electronics and medical products. The stock fell 7.5% in the second quarter in spite of posting strong results. The company has returned to profitability after a multiyear turnaround strategy, including some key acquisitions, that has begun to generate results. We believe that Cypress' growing leadership position in the consumer and automotive Internet of Things, and with the number of connected things continuing to increase in homes, vehicles, and consumer electronics, should bode well for the stock.

## Villere Balanced Fund

The Fund posted a gain of 4.80% during the quarter, significantly outperforming the Lipper Balanced Fund Index which was up 1.13%, and the S&P 500 Index which increased 3.43%. Stock selection continued to be the key driver why the Fund perform well during the period.

As long-term investors, it is also worth noting that the Fund's 10-year and since inception returns were 9.31% and 8.08%, respectively, outpacing the 6.44% and 5.46% results of the Lipper benchmark.

At 20.1%, the fixed income exposure in the fund remains near the low end of the Fund's target as we anticipate that the Federal Reserve will continue to raise interest rates. The Fund's fixed income allocation is primarily designed to help temper potential downside risk, with 90% of the fixed income portfolio invested in investment-grade bonds and up to 10% in below investment-grade bonds to add potential for additional yield and return.

The Fund's allocation to stocks was at 70.6% at the end of June. The remaining allocation was in cash, at 9.3%, which we look to deploy as opportunities arise.

## Villere Balanced Fund—Top Contributions &amp; Detractors

Top Performers—Balanced 3/30/2018–6/30/2018	Portfolio Weight (%)	Return (%)
Axon Enterprise Inc.	3.97	60.72
Financial Engines, Inc.	5.34	28.51
Apache Corp.	3.03	22.22
Visa Inc. Class A	5.34	10.90
Steris PLC	4.33	12.81

Bottom Performers—Balanced 3/30/2018–6/30/2018	Portfolio Weight (%)	Return (%)
LKQ Corp.	3.62	-15.94
Western Digital Corp.	3.75	-15.56
Cypress Semiconductor Corp.	3.41	-7.50
Howard Hughes Corp.	4.05	-4.77
Sanchez Energy Corp.	1.52	-8.50

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

## Villere Equity Fund

The Fund posted a gain of 6.22% during the quarter, outperforming the Lipper Mid Cap Growth Fund Index which was up 4.40%, and the S&P 500 Index which was increased 3.43%. Stock selection was the key driver for the Fund's strong results during the period.

## Villere Equity Fund—Top Contributions &amp; Detractors

Top Performers—Equity 3/30/2018–6/30/2018	Portfolio Weight (%)	Return (%)
Axon Enterprise Inc.	5.23	60.72
Financial Engines, Inc.	5.87	28.51
Apache Corp.	3.77	22.22
Steris PLC	5.49	12.81
Genesee & Wyoming, Inc. Class A	4.64	14.87

Bottom Performers—Equity 3/30/2018–6/30/2018	Portfolio Weight (%)	Return (%)
LKQ Corp.	4.53	-15.94
Western Digital Corp.	4.62	-15.56
Cypress Semiconductor Corp.	4.36	-7.50
Howard Hughes Corp.	4.76	-4.77
Acuity Brands, Inc.	0.44	-5.75

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

## Outlook and Strategy

Our outlook for small- and mid-cap stocks remains moderately constructive. Although the stock market is always dependent on the economy, all signs point to continued U.S. economic growth as we have low inflation, low interest rates, low unemployment, higher savings rates, and optimistic consumers who are spending money on homes and cars. Small-cap stocks are benefiting from the larger domestic revenue exposure, which makes them less exposed to currency headwinds and the threat of a trade war. We believe that corporate earnings will have the biggest impact on the direction of the stock market for the remainder of the year.

The stock market returns have always been lumpy. They include periods when stocks have gone nowhere, they include losses and large gains. We believe that high market volatility will likely continue, and it may be a bumpier ride for investors going forward.

There are attractive stocks out there, but they are getting harder to find and risks are elevated in the later stage of a bull market. However, while the market does seem to be pricey, there are always hiccups in company valuations as a result of a corporate earnings miss, management dislocation, unique events, etc. Our job is to discern whether these are temporary, which may allow us to take advantage of the market's valuation, or if the problems are inherent and indicative of a long-term, insurmountable problem. Given the prospects of more uncertainty and volatility, we will continue to run our selective, disciplined investment process that has served us well in the past.

Thank you for your continued support and confidence in the Villere Funds.

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

**IMPORTANT INFORMATION**

*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 nonrated 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 II, 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 06/30/2018 were:****VILLERE BALANCED FUND**

Financial Engines, Inc.	(FNGN)	5.7%
Visa, Inc.	(V)	5.4%
Pool Corp.	(POOL)	4.6%
Steris PLC	(STE)	4.5%
Howard Hughes Corp.	(HHC)	3.9%
Euronet Worldwide, Inc.	(EEFT)	3.9%
Axon Enterprise, Inc.	(AAXN)	3.7%
Kearny Financial Corp.	(KARNY)	3.5%
LKQ Corp.	(LKQ)	3.4%
Apache Corp.	(APA)	3.4%

**VILLERE EQUITY FUND**

Financial Engines, Inc.	(FNGN)	6.4%
Visa, Inc.	(V)	6.1%
Pool Corp.	(POOL)	5.8%
Steris PLC	(STE)	5.7%
Genesee & Wyoming, Inc. - Class A	(GWR)	4.9%
Apache Corp.	(APA)	4.7%
Howard Hughes Corp.	(HHC)	4.7%
Euronet Worldwide, Inc.	(EEFT)	4.5%
Progressive Corp.	(PGR)	4.3%
LKQ Corp.	(LKQ)	4.3%

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.

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

**INDEXES****Bloomberg Barclays US Intermediate Government/Credit Bond Index**

measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

**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.

**NASDAQ Composite Index**, a market value-weighted index of all domestic and international common stocks listed on the NASDAQ stock market.

**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.