



Lamar Villere

Villere Balanced Fund

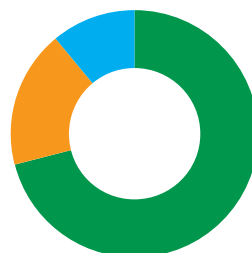
TICKER	VILLX				
ASSETS	\$299.6 million				
PERFORMANCE	YTD	1 yr.	3 yr.	5 yr.	10 yr.
	12.34%	13.74%	9.15%	5.06%	9.47%

As of 9/30/2018. Three, five, and 10-year figures are annualized. Source: Villere & Co.

TOP FIVE HOLDINGS Visa, Inc., Pool Corp., STERIS PLC, Euronet Worldwide, The Howard Hughes Corporation.

As of 8/31/18. Source: Villere & Co.

CONTACT INFO 866.209.1129
villere.com



As of 8/31/2018. Source: Villere & Co.

The Next Act For Small Caps

Geopolitical winds that have buffeted large companies may be the wind beneath small companies' wings. **By Marla Brill**

AFTER YEARS OF UNDERPERFORMING LARGE company stocks, small companies and mid-caps have made a comeback this year. And Lamar Villere, who co-manages the Villere Balanced Fund, thinks the stage is set for these smaller names to assume a market leadership position in the years to come.

Rising interest rates are pushing the shift. "Investors would logically be less inclined to stay in large-cap dividend payers when interest rates on Treasury securities are more attractive," says Villere, whose firm specializes in small and mid-cap stocks. "The tailwind of low interest rates won't be there for them." He adds that even though smaller stocks have advanced this year, their valuations are still more attractive than large caps' are.

Still, he admits, "we're having a tougher time finding interesting valuations." The challenging environment is one reason that the fund's cash stake stood at a higher-than-normal 15% of assets

at the end of September, and why the equity side of the portfolio, which usually has about 25 stocks, is down to 20. "If we're trimming winners and can't find anything we like to replace them, we will hold cash," he says.

This year's performance boost for small caps has been fueled by a number of factors. Unlike huge multinationals, smaller companies typically derive most of their revenue from sales in the U.S., where the economy has been expanding at a more rapid clip than in some other parts of the world. Investors also anticipate that small companies will see more benefit from tax cuts because they pay much higher taxes than most large-cap companies. And the trade tensions that spooked large company stocks left small company stocks relatively unscathed, since their businesses have less overseas exposure.

While all those factors are still in play, small company stocks are often less predictable than their large-cap brethren, and the earnings surprises from tax cuts many people are looking for

may fail to materialize. The competition from large caps hasn't entirely receded, either. In a pattern that has been repeated several times this year, large company stocks fell soon after new U.S. tariffs were announced (or after other countries imposed their own retaliatory tariffs). But those stocks bounced back quickly after the initial shocks, an indication that investors appear willing to shrug off trade tensions fairly quickly and move back to their comfort zones.

Villere thinks that eventually investors will recognize and reward the relative insulation small and midsize companies have from trade tensions. "The more trade war rhetoric that gets bounced around, the more investors seem to wave it off," he says. "But eventually trade policy could have a real impact on large multinationals."

Balanced Fund On Steroids

As its names implies, the Villere Balanced Fund invests in a combination of stocks and bonds. Unlike most balanced funds, it focuses mainly on small and mid-cap stocks in its equity holdings, though a couple of larger companies are sprinkled in. The portfolio usually holds 20 to 30 stocks, and the typical holding period is at least five years.

Fund Facts

Expense Ratio	0.94%
# Of Equity Holdings	20
Portfolio Turnover	15%
Inception Date	9/30/1999
Minimum Investment	\$2,000
Subsequent Investments	\$500
Sales Charge	None

As of 8/31/18. Source: Villere & Co.

Portfolio Facts

STOCK PORTFOLIO	
Weighted Average Mkt Cap	\$30.1 B
Median Market Cap	\$5.6 B
Price/Earnings	20.2
BOND PORTFOLIO	
Average Duration (years)	2.5

As of 6/30/2018. Source: Villere & Co.

"Some financial advisors use the fund as a core holding and buy other investments for large-cap exposure. I've also heard it used as a way to potentially get small-cap exposure with less volatility."

—Lamar Villere

The bond side of the portfolio usually ranges from 20% to 50% of assets, depending on market conditions. Because the fund managers anticipate that the Federal Reserve will continue to raise interest rates, the fund's bond holdings were recently near the low end of the target range and concentrated in short-duration, investment-grade securities. About 10% of the fixed-income side is in below-investment-grade bonds.

According to the firm's website, the mix is "potentially well-suited for investors who desire the diversified mix of stocks, bonds and cash offered by a balanced fund, while having some aggressiveness in terms of the underlying equity component." In many ways, however, this fund defies labeling. One of its managers has called it "a balanced fund on steroids," but it could also be called a small and mid-cap fund with a bond cushion.

The fixed-income component is primarily designed to help temper potential downside risk, and it has done that in down markets. In 2008, for example, the Villere fund's 28% loss was mild compared

with the 35% drop in the Russell 2000 Index, a benchmark for small company stocks. But the Villere fund has also underperformed that index in bull markets.

"Some financial advisors use the fund as a core holding and buy other investments for large-cap exposure," Villere says. "I've also heard it used as a way to potentially get small cap exposure with less volatility."

Over certain long periods, the fund's returns have exceeded those of more traditional balanced funds, but it has fallen short in other periods. From its inception in 1999 through August 31, 2018, its 8.23% annualized return beat the 5.58% return of the Lipper balanced fund index, and it outperformed that bogey over the one- and 10-year periods as well. However, it lagged the index over three and five years.

A Family Affair

The unusual structure of the fund is an outgrowth of the New Orleans-based Villere & Co.'s roots as an investment advisor for separately managed accounts. Founded in 1911 by Lamar Villere's great-grandfather, the firm now manages some \$2.2 billion, mostly in accounts for high-net-worth individuals and institutions. It opened the balanced fund in 1999 as a vehicle for its larger clients to invest smaller amounts for IRAs, 401(k) plans and custodial accounts. "Basically, we wanted to create a fund that resembles a typical account at our firm," he says. "Some fund shareholders are also our clients. But there are also a lot of names we don't know."

Villere worked as an investment advisor to pension funds in Tennessee and Illinois before joining the family firm in 2013. Today, the management team for both the firm and the fund consists of himself,

Equity Sector Allocation

(% of stock portfolio)

Information Technology	36.0
Consumer Discretionary	20.8
Financials	14.3
Industrials	8.3
Health Care	6.6
Real Estate	5.3
Manufacturing	4.4
Energy	4.3
Consumer Staples	0.0
Materials	0.0
Telecommunication Services	0.0

As of 8/31/18. Source: Villere & Co.

his cousins Sandy Villere III and George Young, and his uncle Sandy Villere II. “We sometimes talk about business outside the office, but only marginally,” he says. “The wives wouldn’t like it too much.”

In the office, the daily discussion about stocks sometimes involves the hiccups in a company’s valuations after it misses corporate earnings, endures a management change or runs into some other unique problem. The Villere managers try to discern whether these problems are temporary, thus presenting a buying opportunity, or the long-term problems of a company to avoid.

Longtime fund holding 2U Inc. joined the portfolio a few years ago. At the time, analysts were bearish about the online education company’s stock for a variety of reasons, and it had dropped in value significantly. “We met with management and went over every problem mentioned to determine what was real and what wasn’t,” Villere says. “We also talked with clients about their relationship with the firm and they were overwhelmingly positive.” Villere likes the company’s consistent revenue stream from 15-year contracts with schools around the country to offer online graduate degree programs. 2U keeps 60% or more of the tuition.

Other stocks make their way into the portfolio when positive changes at a company aren’t being fully recognized by the market. The Villere managers established a position in Weight Watchers earlier this year when a new chief executive officer ramped up plans to transition the company from in-person weight-loss centers to online coaching. The company is also expanding from pure weight-loss efforts to health and wellness programs in an effort to widen its audience and get the average customer to stick around longer.

“A key metric is that a paid user usually stays about nine months,” he says. “If Weight Watchers can stretch that out to a year, it will be massively more profitable.”

Axon Enterprise (formerly Taser International), the company that makes the well-known electroshock Taser guns as



Manager

Lamar Villere
(with Sandy Villere II,
Sandy Villere III, and
George Young)

Age
43

Education

Bachelor’s degree,
Washington and
Lee University;
Master’s degree,
Vanderbilt University.

**Professional
Background**

Investment banker,
HCFP Brenner Securities;
institutional
Equity analyst,
Morgan Keegan;
investment manager
for pension systems
in Illinois and
Tennessee; joined
Villere & Co. in 2013.

Outside Interests

Spending time
with four children
and a dog, cat,
and three chickens.

well as body cameras, was added to the portfolio soon after the riots in Ferguson, Mo., that erupted in response to the fatal shooting of Michael Brown by a white police officer in 2014. “Taser is dominant in the non-lethal weapons market,” says Villere. “After the shooting, we spoke with a number of municipalities and learned that they planned to use more Taser devices and body cameras. That works to the benefit of both the police and suspects.”

That view was reinforced by Axon in

early 2017 when it rolled out a trial program that gave away body cameras to police for a year. “Some people thought it was a bad idea, and it was certainly a controversial one,” he says. “But it turned out to be a great way to increase market share for a dominant force in the industry.” Today, police in 46 cities around the country use body cameras made by the company. The stock, which had meandered for years, had risen from \$28 a share at the beginning of 2018 to \$65 by late September. **FA**

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.

Average Annualized Returns as of 9/30/18	1 yr.	5 yr.	10 yr.	Since Inception (9/30/1999)
Villere Balanced Fund	13.74%	5.06%	9.47%	8.11%
Lipper Balanced Fund Index	6.91%	7.29%	7.70%	5.55%
Russell 2000 Index	15.24%	11.07%	11.11%	9.04%

2008 Calendar Year Performance: Russell 2000 Index: -33.79, Villere Balanced Fund: -27.85

Villere Balanced Fund Expense Ratio: 0.94%.

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

Villere Balanced Fund Top 10 Holdings as of 9/30/18:

Visa, Inc.: 6.0%, STERIS: 4.7%, Euronet Worldwide, Inc.: 4.6%, The Progressive Corp.: 3.8%, The Howard Hughes Corp.: 3.6%, Kearny Financial Corp.: 3.5%, Pool Corp.: 3.4%, Apache Corp.: 3.4%, LKQ Corp.: 3.3%, Western Digital Corp.: 3.2%

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 indices are unmanaged and returns include reinvested dividends. 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. One cannot invest directly in an index.

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. Price to Earnings (P/E) Ratio is a common tool for comparing the prices of different common stocks and is calculated by dividing the current market price of a stock by the earnings per share. The P/E ratio is not a measure of future performance or growth.

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

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 Fund's 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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