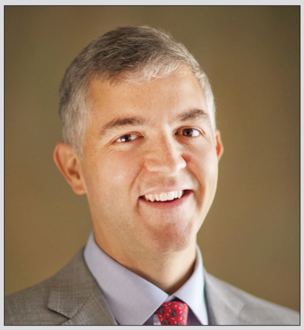
REPRINTED FROM FEBRUARY 19, 2018

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Achieving Long-Term Growth with a Concentrated, Balanced Fund



LAMAR VILLERE, CFA, serves as Partner and Portfolio Manager at Villere & Co. Prior to this, Mr. Villere managed global private equities, hedge funds, and public equities. He is a member of the CFA Institute. He holds the Chartered Financial Analyst designation. Mr. Villere is a graduate of Washington & Lee and Vanderbilt University's Owen Graduate School of Management.

SECTOR — GENERAL INVESTING

TWST: What is your role in the firm and the fund that you would like to discuss as well as assets under management?

Mr. Villere: I am a Partner and Portfolio Manager and would like to discuss the Villere Balanced Fund. Firmwide, our assets under management are about $2.2 billion. For this fund, they are $281 million.

TWST: Can you talk a little bit about the investor the fund is for and its general goals?

Mr. Villere: It is a balanced fund, so it contains stocks, bonds and cash. We are a little different from your typical balanced fund in that the majority of our stocks are small and midcap names. In this sense, we are less like the S&P 500 than a lot of our balanced fund peers. Our target investor is someone who wants the stability of a balanced fund with some bonds within, but some aggressiveness in terms of the underlying stock component. We tend to hold smaller companies that are growing a little bit faster than the S&P and that may have some more volatility as you would expect with smaller companies versus the blue chips that would be in the S&P 500 or that would be in the typical balanced funds. We are different in how we approach the balanced portfolios.

TWST: Generally speaking, how many holdings do you have, and can you explain the process by which you both select and then adjust the holdings?

Mr. Villere: On the equity side, we typically hold 20 to 25 stocks. We are also a lot more concentrated than a lot of our peers in having 15 to 20 bonds. The bonds tend to be corporates but more blue chip types. We are not taking a lot of credit risk. On the bond side, we are allowed to have up to 10% allocated to high yield bonds, and we generally are near that limit. In terms of the overall fund, that is a pretty small percentage.

There are four of us who are on the portfolio management side, and we are all relatives, meaning I work with my uncle and two cousins. We make investment decisions as a team. As I mentioned, our portfolio is concentrated, and we have pretty low turnover, which makes us fairly tax efficient. Our turnover, or our average holding period, tends to be about five years. We will trim a stock as it runs up significantly so it does not represent too large of a percentage of the overall portfolio. If we think it is still an interesting opportunity we will buy more, but as far as adding and selling new names, we are careful when we do that. We don't want to add a stock unless we feel really strongly about it and plan to hold it for a long time.

TWST: Does it make it difficult in any way to manage the fund and be honest about your opinions with one another when you are related?

Mr. Villere: We obviously all have our own opinions, but we are generally able to reach consensus with each other. We have a formal meeting once a week. Even as I sit here right now, I can make eye contact with all three and can speak in a relatively normal conversational voice with anybody. It is almost a constant meeting. We all know where everyone else stands on stocks or underlying companies in a portfolio. At any point, if I feel strongly about adding something or reducing or taking something out of the portfolio, I know who is going to have concerns with that and what their concerns are and sort of the mountain I need to climb in terms of trying to convince somebody of what I think should be done.

TWST: Do you have any other rules that govern the fund as in certain weighting thresholds or sector limits?

Mr. Villere: There are no sector limits. We are aware of the weightings of the S&P and the broader benchmarks. We are not going to wake up and all of a sudden realize we are 80% technology or that we have no financials or something like that. Like I said, the high yield fixed income exposure has to remain at no more than 10% of the fixed income component. Overall, the equity piece is going to be 50% to 80% of the portfolio, and the fixed income is going to be 20% to 50%. These days with interest rates as low as they are, even though they have come up some, we are generally toward the low end of that 20% weighting in fixed income.

TWST: In terms of sector allocation, what is your rationale for why the percentages are falling as they are right now?

Mr. Villere: The first thing to understand is that we are bottom-up investors, so we don't say, "Hey, we need a financial and let's go out to find the best financial we can find." We are really looking at individual names. Right now, our heaviest weighting is technology at 34%. That is where we are finding the most interesting growth, which is not unique to us. It is a good growth sector. Conversely, we have zero weight to materials, consumer staples, telecom services and utilities as slower-growth sectors with dividends. That tends not to be where we focus.

TWST: One could argue that if you do have a lower weighting on the fixed income that you might want to go with some of those "safer" equity holdings, but would you argue differently, I am assuming?

Mr. Villere: That is right. What we have seen in the last several years is that investors like us are finding less and less attractive opportunities in the bond universe. A lot of people have moved that money and bought the large-cap, heavy-dividend-paying telecom services types of stocks. Those companies, in our view, have gotten very expensive. If you look at them purely for income, they are more attractive than an actual bond. But if you look at them relative to other stocks, we think you can get a lot more growth from other stocks at similar or even a lower valuations than you can for some of these large, dividend payers.

TWST: In terms of your top 10 holdings, can you select from among them and talk about why they were selected and why you think they are a perfect fit for the balanced fund?

Mr. Villere: Sure. One that we have owned for a couple of years is a company called **2U** (NASDAQ:TWOU). **2U** is an online education company. They partner with graduate schools in the U.S. Although they have acquired an international nondegree business, the core business is to partner with U.S.-based graduate schools for online learning. Some people hear "online learning" and assume this is a little bit lower quality, but **2U** partners with schools like Yale, Northwestern, UNC-Chapel Hill, Georgetown, etc. Those schools will offer fully online versions of graduate degrees.

The beauty of this from **2U's** perspective is these are 10- to 15-year contracts generating very visible revenue streams. Students pay the tuition just as they would for full-blown on-campus degrees, and **2U** gets to keep roughly 65% of the tuition. The schools love it because they are actually making money on the degrees, and they are used to losing money and having to fundraise to cover the difference. It is a great business.

We have been invested in this company for several years, and it has a great growth trajectory. That is the kind of company that we look for, as it is lesser-known and has great growth prospects. We try to get in before they become household names.

Another one is **Axon** (NASDAQ:AAXN), which you may have heard of. It was formerly known as TASER. In the last several years, **Axon** has expanded into the business of body-worn and car-based cameras for security and police forces. They have had this cash cow in the high-margin nonlethal weapon business. Now they have this exciting growth stream in municipalities by rolling out cameras to police forces for a number of uses. Because they are becoming the market leader in that, they changed their name from TASER to **Axon**.

"These days with interest rates as low as they are, even though they have come up some, we are generally toward the low end of that 20% weighting in fixed income."

TWST: And their primary product is cameras?

Mr. Villere: Their primary growth product is cameras, with the bulk of profits still coming from the weapons. Effectively they have been pouring profits from the taser devices to grow the camera business.

TWST: I would think there would be a lot of people competing for that camera business. Are they managing to differentiate themselves?

Mr. Villere: Yes, they have two main advantages. When we first started looking at them, we thought, "Gosh, why can't anybody with a cheap GoPro strap it on somebody's uniform and be set to go?" The reason they cannot do that is because the real complexity is not the camera itself, it's how it handles the data. If you have 100 police officers working eight-hour shifts for five days a week, you need some way to use the camera to search the data. You start doing the math of the amount of video time logged that the laws require you to maintain for three, five and seven years, and it is a massive amount of data that has to be be searched.

So if somebody comes in and says, "Hey, six months ago, a cop did this," you have to be able to find what effectively is a needle in a haystack. So **Axon** with its Evidence.com offering enables these police forces to completely outsource the management of all this data so that the data is searchable and easily found. It wound up being a great revenue source. You are not just paying them for the cameras, but you are paying an ongoing subscription fee for that service.

The second advantage that they have is that they already have relationships with municipalities from the distribution of the TASER weapon. They know the people and have been able to package all of this as a full-service plan for $99 per officer, per month. This allows police to have current working weapons that are upgraded periodically, current working cameras, and have all the services involved with the data taken care of. It is an easy one-stop shop for municipalities.

In our process we take the time to speak to competitors, customers, former employees and anybody who can give us some information about the business. We spoke to a number of decision-makers at municipalities all over the country, and repeatedly, the feedback we got was that **Axon** is not the cheapest product, but it is the best. It is their space

Highlights

Lamar Villere discusses the Villere Balanced Fund. The fund consists of both small and midcap names, and targets the investor who wants the stability of a balanced fund but some aggressiveness in terms of an underlying stock component. Mr. Villere says that in the fund, the equity piece is 50% to 80% of the portfolio, and the fixed income is 20% to 50%. He shares some of the top holdings and his bottom-up analysis. Companies include: 2U (NASDAQ:TWOU); Axon Enterprise (NASDAQ:AAXN); Pool Corporation (NASDAQ:POOL); LKQ Corporation (NASDAQ:LKQ); Skyworks Solutions (NASDAQ:SWKS); Cypress Semiconductor Corporation (NASDAQ:CY) and Apple (NASDAQ:AAPL).

to lose. When you bid out the business, the presumption is they are the biggest and most successful, and have the best quality offering. It is just a matter of whether you are going to choose them or not. What we have seen is the bulk of large police forces have chosen **Axon**.

1-Year Daily Chart of 2U

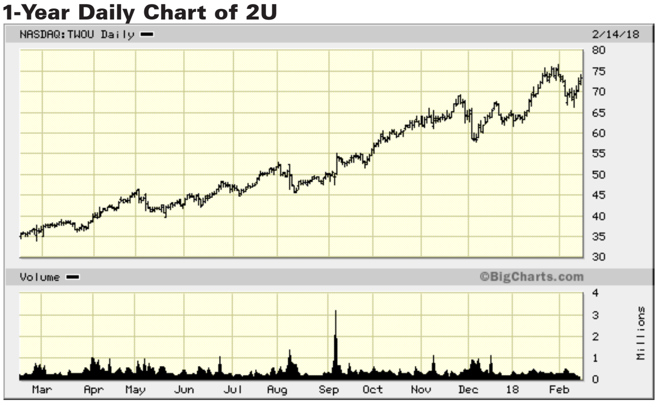


Chart provided by www.BigCharts.com

"In our process we take the time to speak to competitors, customers, former employees and anybody who can give us some information about the business."

1-Year Daily Chart of Axon Enterprise

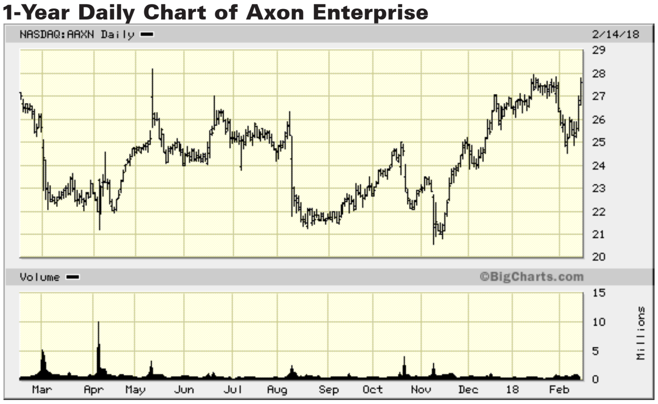


Chart provided by www.BigCharts.com

TWST: Can you discuss holdings in different industries?

Mr. Villere: A company called **Pool Corporation** (NASDAQ:POOL), which is actually based near us just over the lake here outside of New Orleans, is a distributor of swimming pool and backyard-based products. It does not sound that interesting, but I will tell you a couple of reasons why it is very interesting. Number one is **Pool Corp.** is bigger than the next 40 competitors combined. It dominates the space. Number two, swimming pools are a beautiful business; upkeep constantly requires money. If you own or put in a pool, you are going to have to buy all kinds of pool equipment upfront, and the odds are that whoever is servicing your pool is also buying that equipment from **Pool Corp.**

Importantly, even when you are in a slower growth environment where people are not building houses and digging pools, those who do have pools are still buying chemicals and having to replace pumps and other equipment. It is a nice business that during the good times booms, but in the bad times, it held it's own and stayed nicely profitable. That is one stock that we have owned for a very long time. It has been a great contributor to our returns.

Another holding is **LKQ** (NASDAQ:LKQ). **LKQ** is the name of a company and it is also a term in the insurance industry, particularly the car insurance industry, that stands for Like Kind and Quality. If you get in a fender bender or a wreck in your car, you are going to call your insurance provider and you can take the car to one of these collision centers and they will take care of it. Those collision repair centers need to find parts for your car. Generally, if they need a brand new part, and say for example it's a Honda and you have dented the fender, the shop could call Honda to obtain that specific red fender for a 2012 Civic. However, it is going to take weeks for Honda to make that product and it will be very expensive.

LKQ is, at least in the U.S., the dominant provider of aftermarket parts, whether they are used parts or parts made by other manufacturers. The car owner wants his car back sooner, and it is going to cost the insurance company less. So you are happy. In your contract somewhere, it says products will be replaced with things that are new or Like Kind and Quality, as in LKQ.

They dominate in the U.S. It is like an Amazon Prime. The body shop is thrilled because they know they are going to get the parts fast and cheap. The insurance company is also thrilled because it is going to be less expensive, and you are happy because you are getting your car back fast. So rather calling or having the mechanic call 20 places to see if anybody has that fender, they know **LKQ** is going to have it.

There is also a growth opportunity for the company in Europe. They are trying to replicate the same thing. Over the years, they keep gradually growing a footprint in Europe. They are trying to create the same dominance in market share where it is the no-brainer. If you need a part, you go to them. This is a name we have owned for about 2.5 years, and it has been doing well.

TWST: What market conditions are you examining most closely and why, including but not limited to tax reform?

Mr. Villere: Tax reform, obviously, from our holdings' perspective, is a positive. We think that investors have, for the most part, priced it in on the large-cap side, but maybe not as much on the small-cap side. Small caps have had a decent run in the beginning of this year. If you look back over the last 12 months, large caps have significantly outperformed small caps. A lot of that is investors and analysts conducting tax reform impact analysis on the megacaps. For the smaller names like an **Axon**, we think it is going to mean a lot. We think that there are still some overlooked values in the small-cap space where expectations haven't really included the full benefit of the tax reform.

TWST: What else do you examine in relationship to some of your small and midcap names?

Mr. Villere: We are looking at each name on a very specific basis. We are not top-down or macro-focused. We are staying on top of our names and exactly what the trends are in each of their businesses.

TWST: Has it ever been the case that in that bottom-up analysis that you did find yourself, because of the nature of some of the businesses you found, that they did tend to be clustered in a couple of various sectors and you felt you were a bit overweighted?

Mr. Villere: We would certainly be careful. Specifically, if **Axon** had a good run and it has grown significantly as a percentage of our portfolio, then that is something we would carefully analyze. If we own multiple companies that have the same key drivers then that would be something concerning.

For example, we owned a company for a while called **Skyworks** (NASDAQ:SWKS), and **Skyworks** handled the chips that connect devices to different wireless networks. If you have a cellphone and you are walking around and you move along Wi-Fi and it is connected to Bluetooth, the cellphone can then drop from one network to another network via **Skyworks'** chip. There was another, somewhat similar stock, a company called **Cypress Semiconductor** (NASDAQ:CY), that we are interested in, but we were holding off buying because we were worried about owning that and **Skyworks** at the same time. So when the **Skyworks** stock rose significantly and **Cypress** stayed relatively reasonable, that was a good time for us to make a lateral move into another semiconductor name. While **Cypress** is slightly different, it gave us a lot of the same exposures that we like, but at a more attractive valuation.

1-Year Daily Chart of LKQ Corporation

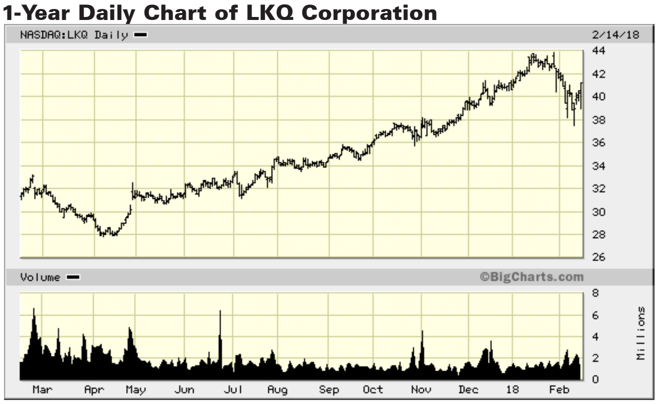


Chart provided by www.BigCharts.com

Similarly, we owned **Apple** (NASDAQ:AAPL) for a long time. We bought **Apple** when Steve Jobs died and had an opportunity where we thought it was a little bit cheap. We owned it for several years, and then we finally said **Apple** had great run, and it is now a mature company and not a growth company anymore. That was when we sold **Apple**. We bought **Skywork**s, and **Skyworks** is a big supplier to **Apple**, but we thought it had better growth prospects. That worked well. **Apple** still did well, but **Skyworks** did even better. Then we moved from **Skyworks** into **Cypress Semiconductor**. So we are maintaining exposure with similar growth in wireless, but making subtle different changes in exactly how we are getting that exposure.

TWST: How important is it for you to feel comfortable with the managements of these companies? Do you speak to them and visit them? How does that work?

Mr. Villere: It is very important. Yes, we do meet with some and we speak to all of them. One of the nice things about being a concentrated manager around small and midcap stocks is by the time we buy a position for a lot of these names, we are a top-five to top-10 shareholder, so we can get plenty of attention from the management team. We can check in with them. That is not the whole story as obviously management teams are going to be very positive on their companies, which is understandable, so we don't take everything they say at face value. We believe having a very high-quality management team with a proven track record is very important, and so that's a big part of our investment process.

TWST: Finally, why would you tell investors to select this balanced fund over another, given that there are quite a few others on the market?

Mr. Villere: The number-one key differentiator is that we are concentrated. We are not buying 100 stocks; we are only buying 20 to 25 of our best ideas. We are an over 100-year-old family-owned firm, so unlike some of our peers, you don't see any turnover in the investment staff. You don't need to worry about whether the track record is the same. In our case, our record was made by the same people who are currently here.

"We think that there are still some overlooked values in the small-cap space where expectations haven't really included the full benefit of the tax reform."

Also, we focus on smaller-cap stocks and a different kind of company that you typically will not know on your own. They are lesser-known names. The last thing I would say is that, for a number of reasons, large caps have really outpaced small caps over that last couple of years, not from a company performance perspective, but from a stock performance perspective. We think the small caps have a lot more room to run to catch up to the large caps, so it is an interesting place to be right now.

TWST: Also, do you think relative to other balanced funds that you have less turnover and so fewer fees attached to the management of the fund?

Mr. Villere: Yes, there is lower turnover and less trading cost, so we tend to be more tax efficient. A lot of our clients have tax-free accounts, so we are not making trades only for tax reasons, and we are not just flipping stocks. We tend to be more of a buy-and-hold type of an investor.

TWST: And the ticker on this fund is?

Mr. Villere: VILLX.

TWST: Is there anything else you wanted to mention before we end?

Mr. Villere: Yes. You can find more information about Villere & Company and our products and services on our website at villere.com.

TWST: Thank you. (KJL)

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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 12/31/17	1 yr.	5 yr.	10 yr.	Since Inception (9/30/1999)
Villere Balanced Fund	9.13%	5.58%	7.09%	7.77%
S&P 500 Index	21.83%	15.79%	8.50%	6.13%

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 12/31/17:
Axon Enterprise: 8.3%, 2U: 6.8%, Visa: 4.8%, LKQ: 4.5%, Pool: 4.1%, Euronet Worldwide: 4.1%, Howard Hughes: 4.0%, Financial Engines: 4.0%, Kearny Financial: 3.9%, Steris: 3.8%

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

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.

Investing in value stocks presents the risk that value stocks may fall out of favor with investors and underperform other asset types during a given periods. Equities, bonds, and other asset classes have different risk profiles, which should be considered when investing. All investments contain risk and may lose value.

Tax efficient claim is based on the Fund's low 13.2% turnover ratio. Nothing contained on this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation.

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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