

Market Review: U.S. Stocks Suffer Worst Quarter Since 2009

It was a difficult quarter for the financial markets and a bumpy ride for investors. Solid economic growth and strong corporate earnings drove U.S. stocks higher for most of the year. But in the fourth quarter, the trade war with China and concerns over rising interest rates and the government shutdown caused stock prices to tumble, as investors pondered how those factors could dampen corporate profits and future economic growth.

After lagging for the first eight months of the year, large-cap stocks outperformed small- and mid-caps in 2018, as they often do when the market gets nervous. In the fourth quarter, the S&P 500 declined

13.5%, the Russell 2000 Index (small-caps) was down 20.2%, while the technology-dominated NASDAQ fell 17.5%. Despite a small post-Christmas rally, the S&P 500 had its worst December performance since 1931, down 9.0%, and biggest monthly loss since February 2009. The indexes were down 4.4%, 11.0%, and 3.9% respectively for the year.

Investors will also remember 2018 for the return of volatility, which swept back into the markets after a remarkably quiet 2017. In fact, it has been a very volatile stretch for stocks. The S&P 500 was up or down more than 1% nine times in December, compared to eight times in all of 2017. It moved that much 64 times in 2018.

In December, the Federal Reserve raised interest rates for the fourth time in 2018, the ninth increase since the Fed began to raise rates from near-zero three years ago. The central bank anticipates one more rate hike in 2019, fewer than the three originally projected.

The down year for stocks was uncharacteristically also a down year for bonds. With the Federal Reserve committed to raising interest rates to battle inflation, the bond market struggled as interest rates rose and investment-grade corporate credit spreads widened. The Bloomberg Barclays Int. Govt/Credit Bond Index posted a small gain of 1.6% in the fourth quarter.

VILLERE BALANCED FUND PERFORMANCE (%) VILLX

INCEPTION 9/30/1999*

12/31/2018	Total Return			Average Annualized			Cumulative	
	Quarter	YTD	1 Year	5 Year	10 Year	*Since Inception	*Since Inception	
Villere Balanced Fund	-16.31	-5.98	-5.98	0.07	9.97	7.00	268.18	
Lipper Balanced Funds Index	-7.65	-4.68	-4.68	4.48	8.47	5.04	157.87	
S&P 500 TR	-13.52	-4.38	-4.38	8.49	13.12	5.56	183.26	
Bloomberg Barclays Intermediate Government/Credit Index	1.65	0.88	0.88	1.86	2.90	4.30	125.10	

Expense Ratio: 0.97%

VILLERE EQUITY FUND PERFORMANCE (%) VLEQX

INCEPTION 5/31/2013*

12/31/2018	Total Return			Average Annualized			Cumulative	
	Quarter	YTD	1 Year	5 Year	10 Year	*Since Inception	*Since Inception	
Villere Equity Fund	-19.33	-6.98	-6.98	-1.69	N/A	1.03	5.86	
Lipper Mid Cap Growth Funds Index	-16.46	-3.53	-3.53	6.64		9.18	63.37	
S&P 500 TR	-13.52	-4.38	-4.38	8.49		10.25	72.50	

Expense Ratio: 1.23%

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. 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

Euronet Worldwide, Inc. was the top contributor to the performance of the Funds in the fourth quarter. Healthcare will likely be one of the favored sectors by investors in 2019 for its appealing late-cycle potential. To that end, we purchased Teleflex, Inc. and Roper Technologies, Inc. in both Funds in late December. While both stocks provided a positive contribution to the performance and are listed as top performers, the gains were small since the stocks were bought the last week of the year.

Detractors from performance included Weight Watchers International, Inc., Apache Corp., and Ebix, Inc.

During the quarter, we trimmed our positions in Euronet Worldwide and Steris, which have both been strong performers. We sold Apache Corp. in the Equity fund and cut our holding in half in the Balanced fund. We also used our higher than normal cash position and the downturn in the market to add to some holdings, including Axon Enterprise, Ebix, and Weight Watchers.

4TH QUARTER TOP CONTRIBUTORS

Euronet Worldwide, Inc.

Euronet Worldwide is an industry leader in providing secure electronic financial transaction solutions. The company operates one of the largest independent ATM networks in Europe, and is the world's largest payment network for prepaid mobile top-up and the third-largest global money transfer company. The stock gained 2.2% for the quarter, aided by strong third-quarter results and new growth opportunities, and was up 21.5% in 2018. Beginning in April 2019, Visa will make it possible for Euronet to provide a wider set of transactions at automated teller machines internationally and expand its offering to all Visa-issued cards globally

Teleflex, Inc.

Teleflex, Inc. was added to the Funds in December. Teleflex is an American provider of specialty medical devices for a range of procedures in critical care and surgery. The company has operations in 40 countries and more than 12,000 employees. We believe the company is well positioned for accelerating organic growth and continued margin expansion in 2019. New products remain on track for 2019 launches. Teleflex continues to execute on its long-term strategy to reduce costs and transform to a higher margin, higher growth company. With rising interest rates, Teleflex provides a more stable opportunity against relatively low top-line expectations.

Roper Technologies, Inc.

Roper Technologies, Inc. is another new addition to the Funds. Roper is an American diversified industrial technology company that produces engineered products for global niche markets and customers in over 100 countries. Roper is a highly acquisitive company with a focus on running and buying niche-focused, asset-light businesses. Roper focuses on buying businesses with sizable competitive advantages, strong market positions, and decent growth opportunities. Importantly, the company stays away from fixer uppers and only looks to buy businesses with strong management teams.

4TH QUARTER TOP DETRACTORS

WW International, Inc. (formerly Weight Watchers Intl.)

WW, an American company operating in about 30 countries around the world, offers various products and services to assist weight loss, maintenance, and healthy habits. Despite reporting strong third-quarter results in line with expectations, the stock was down 46.4% in the fourth quarter, primarily on news that the subscriber count was down. Currently the sentiment is very negative and therefore the valuation is cheap. We believe the company is well positioned to take advantage of the trend to focus on a person's total wellbeing, not just weight loss, and consumers seem willing to pay for that wellness. The company is introducing an enhanced digital infrastructure to better connect with a larger and more diverse audience of subscribers.

Apache Corp.

Apache Corp. is an oil and gas exploration and production company with operations in the United States, Egypt and the United Kingdom. The Energy sector was the worst performing sector in the fourth quarter as companies were hobbled by a sharp decline in oil prices in 2018 due to a supply glut. Apache was down 43.5% in the fourth quarter.

Ebix, Inc.

Ebix is a provider of software and e-commerce solutions and services to the insurance, finance, and healthcare industries. Ebix was down 43.5% in the fourth quarter, despite reporting solid third-quarter earnings. While EBIX's revenue and profitability has declined some in the developed markets, the company is growing in the emerging markets of Asia where the demand for enterprise solutions and infrastructure is increasing rapidly.

Villere Balanced Fund

The Fund declined 16.3% during the quarter, while the Lipper Balanced Funds Index was down 7.6% and the S&P 500 Index fell 13.5%. The Fund's relative underperformance for the quarter was mainly due to investors' bias for large company stocks as the market sold off. Most peers in the balanced fund category invest primarily in large-cap stocks versus Villere's bias toward small-and mid-sized companies.

As long-term investors, it is also worth noting that the Fund's 10-year and since inception annualized returns were 10.0% and 7.0%, respectively, outpacing the 8.5% and 5.0% results of the Lipper benchmark.

The Fund held a higher than normal cash position (14.7%) going into the fourth quarter, which helped reduce the Fund's loss as stocks declined. At the end of December, the allocation to cash had been reduced to 10.0% as we took advantage of some attractive opportunities to add to our equity exposure, especially in late December. The Fund's allocation to stocks was at 70.9% at the end of the year.

Several of our fixed income holdings also provided some needed stability during this downturn in the equity market. At 19.1%, 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 and provide some cushion during market declines. 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.

Villere Balanced Fund—Top Contributions & Detractors

Top Performers—Balanced 10/1/2018–12/31/2018	Average Portfolio Weight (%)	Return (%)
Euronet Worldwide, Inc.	3.69	2.16
Short-Term Invts Tr Gov Agn Instl	13.05	0.50
Teleflex, Inc.	0.05	1.56
Roper Technologies, Inc.	0.05	1.02
Campbell Soup Co. 2.5% 8/2/2022	2.27	0.28

Bottom Performers—Balanced 10/1/2018–12/31/2018	Average Portfolio Weight (%)	Return (%)
WW International, Inc.	3.28	-46.45
Apache Corp.	2.97	-44.61
Ebix, Inc.	2.83	-46.14
3D Systems Corp.	2.61	-46.19
Western Digital Corp.	3.00	-35.99

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

Villere Equity Fund

The Fund declined 19.3% during the fourth quarter, while the Lipper Mid Cap Growth Fund Index was down 16.5% and the S&P 500 Index fell 13.5%. While smaller was better for the first eight months of 2018, the reverse was true for the last part of the year. The Fund's relative underperformance for the quarter was mainly due to investors' bias for larger companies.

Villere Equity Fund—Top Contributions & Detractors

Top Performers—Equity 10/1/2018–12/31/2018	Average Portfolio Weight (%)	Return (%)
Euronet Worldwide, Inc.	4.62	2.16
Teleflex Inc.	0.07	1.56
Short-Term Invts Tr Gov Agn Instl	14.16	0.50
Roper Technologies, Inc.	0.13	0.52
Steris PLC	5.17	-6.32

Bottom Performers—Equity 10/1/2018–12/31/2018	Average Portfolio Weight (%)	Return (%)
WW International, Inc.	4.25	-46.45
Apache Corp.	3.89	-43.57
Ebix, Inc.	3.62	-46.14
3D Systems Corp.	3.33	-46.19
Axon Enterprise, Inc.	3.85	-36.07

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

Outlook and Strategy

One of the reasons for the strength in the U.S. economy and corporate earnings in 2018 was the Trump administration's fiscal stimulus and tax cuts. However, the Federal Reserve's intent to unwind its easy-money policies and a succession of interest hikes, a continuing dispute between Washington and China, weakening corporate profit growth, and a slowing economy all now weigh on the markets. The current U.S. expansion will be the longest on record if it continues to July 2019. While inflation has been benign so far, inflation pressures may build. The markets are vulnerable to fears that the downturn will continue, even though most analysts see the risk of a recession as low in 2019.

A resolution of the trade dispute with China would be a boost to sentiment and would remove a significant source of uncertainty. It will also be critical for the Federal Reserve to avoid mistakes with its interest rate policy.

We favor small-cap stocks over large-cap stocks in our portfolios. Relative to large caps, small caps tend to benefit from tax reform, are less exposed to trade risk, and should be less sensitive to a stronger U.S. dollar. They also offer better valuations after the large drop in the fourth quarter. When we see stocks down sharply like this, it can be a great opportunity for a fundamental, long-term investor to add or increase a position. As we often say, while the markets don't like uncertainty, it produces opportunities for active managers. We can invest selectively and discriminate among stocks, which you can't do if you buy an index fund or exchange-traded fund.

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. Investing in quality companies is especially important in this uncertain environment, particularly since we are in the late stage of a long economic cycle. We will continue to invest in growing, quality companies with free cash flow and strong balance sheets. We are keeping a balance between being optimistic and being defensive, and approach the market cautiously, but remain invested to manage through what potentially could be a challenging 2019.

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. 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 12/31/2018 were:

VILLERE BALANCED FUND

Visa, Inc.	(V)	7.1%
Kearny Financial Corp.	(KRYN)	4.4%
Progressive Corp.	(PGR)	4.4%
Pool Corp.	(POOL)	4.0%
Euronet Worldwide, Inc.	(EEFT)	3.8%
Howard Hughes Corp.	(HHC)	3.8%
WABCO Holdings Inc.	(WBC)	3.7%
Genesee & Wyoming, Inc. - Class A	(GWR)	3.5%
Leggett & Platt, Inc.	(LEG)	3.4%
Cypress Semiconductor Corp.	(CY)	3.4%

VILLERE EQUITY FUND

Visa, Inc.	(V)	7.4%
Genesee & Wyoming, Inc. - Class A	(GWR)	5.4%
Progressive Corp.	(PGR)	5.3%
Cypress Semiconductor Corp.	(CY)	5.1%
WABCO Holdings Inc.	(WBC)	5.0%
Kearny Financial Corp.	(KRYN)	4.9%
Euronet Worldwide, Inc.	(EEFT)	4.7%
First Hawaiian, Inc.	(FHB)	4.6%
Pool Corp.	(POOL)	4.5%
Teleflex, Inc.	(TFX)	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.

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

Cash Flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income.

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.