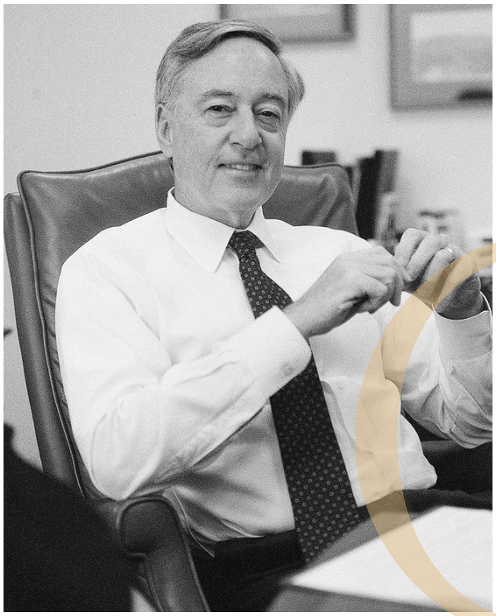
VILLERE & Co
SELECTIVE INVESTING SINCE 1911



George Young, Partner & Portfolio Manager

Volatility: An Opportunity for Long-Term Investors?

Investing in a late-stage bull market

Q. How would you assess the current market environment?

The stock market has been on a wild ride over the past year. After selling off sharply in the fourth quarter of 2018, stocks have bounced back in 2019, but we have seen plenty of volatility. A sell-off in May was followed by near record highs in July, and then increased choppiness in August.

The stock market volatility has been driven by the ongoing U.S. trade war with China, an inverted yield curve, concerns about a slowing economy, and recession fears. The Federal Reserve also veered from raising interest rates, to lowering them, to now looking at cutting again. An inverted yield curve, where the interest rates on short-term bonds are higher than the interest rates paid by long-term bonds, is the bond market's way of telling us that after a 10-year expansion, the bond market sees elevated risk in the economy.

In 2019, small-cap stocks have sharply underperformed large-cap stocks, the S&P 500 Index, which has greater exposure to the technology sector and is the best performing sector this year.

> "I believe a good stock has the opportunity to shine in any environment, but it is important to be selective."

Q. With more market volatility in 2019, where have you been investing recently?

We focus on individual companies, rather than certain sectors. I believe a good stock has the opportunity to shine in any environment, but it is important to be selective. The volatility caused by the trade war with China has provided opportunities, because many investors don't want exposure to China. One stock we bought is **ON Semiconductor Corp.**, which manufactures and sells semiconductor components for various electronic devices worldwide. We like the company due to its exposure to infrastructure and its part in what we believe will be a massive 5G cellular buildout over the next several years. The company has also shown an historical ability to execute, and the stock valuation was attractive.

Q. Can you discuss a few holdings that have done well so far this year?

We held a higher than normal cash position in our portfolios towards end of 2018. In late December, we bought **Roper Technologies, Inc.** The stock was up 41% in 2019 as of September 5th. Roper is an American diversified industrial technology company that produces engineered products for global niche markets and customers in over 100 countries. Roper is highly acquisitive with a focus on running and buying niche-focused, asset-light businesses. Roper buys businesses with what they believe have 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. Being a conglomerate provides another layer of diversification for the holding.

Cypress Semiconductor Corp. performed very well for us this year. Cypress is a leader in advanced embedded solutions for automotive, industrial, smart home appliances, consumer electronics and medical products. We believed that Cypress' growing leadership position in the consumer and automotive Internet of Things would bode well for the stock, especially with the number of connected things continuing to increase in homes, vehicles, and consumer electronics. The stock gained 75% during the first half of 2019 due to strong earnings and the announcement that the company was being acquired by German peer Infineon. We sold this holding in June due to limited further upside potential after the takeout announcement.

"The concentration in the largest stocks in the indexes have created opportunities for active managers."

Howard Hughes Corp. is another holding that has shown that being patient and taking a long-term approach have the potential to be rewarding. The company owns, manages and develops commercial, residential and mixed-use real estate throughout the U.S. After a period of lackluster stock performance, the company released a statement on June 27th that it is considering a number of potential strategic alternatives to maximize shareholder value. These include spinning off company assets, recapitalization of the company, or a sale. As of September 5th, the stock had gained 32% since the news release.

Q. Where do you see relative value in your investment universe? What areas give you the most concern?

We primarily buy small- and mid-cap stocks. Smaller size stocks tend to be more volatile. The companies are not as well-known and don't have the same access to investors, as many investors prefer to buy large, high-quality and more liquid companies. On the other hand, typically it doesn't take a lot of capital for a small-cap stock to rise. There are not as many shares outstanding, and it is easier to establish a position or buy out a company. Investors often buy a small-cap stock hoping that the company will be acquired.

The financial sector has been one of the most undervalued sectors for a while, as the sector has been hampered by tighter regulation and low interest rates. While many investors are concerned about how the prolonged period of low interest rates impact on profits, there are select opportunities in financial stocks.

Again, we are long-term, bottom up investors and focus on individual companies. We are not going to try to make bets on individual sectors, or rotate in and out of those based on the macro environment. The flows into passive investments have created a concentration in the largest stocks in the indexes, and this has created some opportunities in small-cap stocks for active managers.

Q. For the balanced portfolio, how are you positioning the asset allocation between stock, bonds, and cash?

Our current asset allocation in the balanced portfolios is about 71% in stocks, 20% in bonds, and 9.0% in cash. A low interest rates environment tends to favor stocks over bonds. The 10-year Treasury at 1.57%* is relatively unattractive considering a higher yield on the S&P 500 Index at almost 2%. Most of our holdings are in the portfolios for the potential to generate capital appreciation, however, we hold some income-oriented stocks to give us the opportunity to boost the portfolio yield.

We use the fixed income allocation to help balance the risk in the portfolios. The fixed income component usually ranges from 20-30% of assets, depending on market conditions. We are currently at the low end of that range, at about 20%, as we find current bond yields relatively unattractive. The asset allocation is generally a byproduct of the valuations we see on the equity side through our bottom up research efforts. If the market is rich and it is hard to find reasonably priced stocks, we increase the fixed income and cash components.

*As of September 5, 2019

> "Client portfolios need to be tailored to their goals, investment time horizon, and risk tolerance."

Q. You have been a part of the portfolio management team at Villere through several difficult periods in the market; the stock market crash of 1987, the sharp downturn after the dot-com bubble crash and the aftermath of 9/11, as well as the financial crisis in 2008. What did you learn from those experiences?

One thing is that anything can happen at any given time. We found a Russian bond from 1915 with the coupon still attached. The investor thought he would get income payments for 20 years. But fortunes were lost in 1917 when the Bolsheviks seized power, and the Soviet government canceled and stopped payment on all bonds previously issued by the Russian government.

Client portfolios need to be tailored to their goals, investment time horizon, and risk tolerance. Some investors can and should tolerate more risk in order to have the potential for higher returns. Others should not. You should assess your risk tolerance and invest accordingly.

Being patient, taking a long-term approach, and positioning your portfolio based on your personal goals should make it a little easier to go through difficult times like in 1987, 2001, and 2008.

Q. In March, it was the 10th anniversary of this long bull market. With a steady climb upward for the market from 2009 to 2019, passive investments such as ETFs and index funds have become popular. What do you think the role of an active manager is today?

Passive investments have obviously seen large inflows and grown in popularity over the past several years. This trend has been aided by the 10-year bull market. While both passive and active strategies may have a place in a client's portfolio, we believe that active management continues to be very important.

When investors buy a passively managed index fund or ETF, regardless of market-cap or style focus, they are blindly buying the whole index and are not discriminating among stocks. You are going to own the companies that are in the index you are tracking. A passive investor may unintentionally continue to buy what worked well yesterday, without a view toward what could work well tomorrow. As markets, stocks, and sectors move up in price, their respective weightings in the index may increase as well. This means that each new dollar invested is allocated disproportionately toward the most expensive stocks and sectors, and less toward the least expensive.

"Stay disciplined, take a long-term view, and don't chase returns."

As an active manager, we are not limited to just the stocks in the indexes, but have a broader set of companies to invest in. The concentration in the largest stocks in the indexes due to passive investing, have created some opportunities in small-cap stocks for active managers.

Also, a passive fund can't help you manage risk during a market decline. Passive investors are at the mercy of the index: when it is up, they are up, but when it is down, they are just as far down. We have the potential to add value by being more selective in our investment choices. Whether the concentration of money in index funds and ETFs will exacerbate any market selloff is to be seen, but there is a potential risk.

Finally, it is important to stay disciplined to your investment approach, take a long-term view, and not to chase returns.

Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

RISK CONSIDERATIONS

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 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 Villere 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 Villere 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. Past performance does not guarantee future results.

It is not possible to invest directly in an index.

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.

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.

As of September 5, 2019, the Villere Balanced Fund held 379,380 shares of ON Semiconductor Corp., 26,410 shares of Roper Technologies, Inc., 85,552 of Howard Hughes Corp., and zero shares of Cypress Semiconductor Corp. The Villere Equity Fund held 91,690 shares of ON Semiconductor Corp., 5,470 shares of Roper Technologies, Inc., 14,230 of Howard Hughes Corp., and zero shares of Cypress Semiconductor Corp.

Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

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