

Market Review: A Choppy Quarter for Stocks

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. The third quarter was no different.

The sell-off in May was followed by reaching near record highs in July, and then increased choppiness in August and September. When the market rebounded in June and July, it was aided by increasing optimism again that an agreement would be reached on the U.S. trade war with China.

The potential that the Federal Reserve would cut interest rates to keep the economy growing also helped the market propel sharply higher. Concerns again about a slowing economy, a potential recession, the trade war, and an inverted yield curve all added to the weak stock market in August. Both the U.S. and China added tariffs on the other country's goods, before easing some of the tensions. In September, the Fed cut interest rates for the second time this year.

Shares of smaller companies, like those we focus on, have sharply underperformed larger stocks during the past year. Large-cap stocks often outperform when investors get nervous. The large-cap S&P 500 Index also has a greater exposure to the

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—George Young

technology sector, which has been the best performing sector in 2019.

In the third quarter, the Russell 2000 Index (which tracks small-cap stocks) declined 2.40%, the Russell Midcap Index rose 0.48%, while the S&P 500 gained 1.70%. The technology-dominated NASDAQ declined slightly at -0.01%. On the fixed income side, the Bloomberg Barclays Intermediate Government/Credit Bond Index posted a gain of 1.37% in the third quarter.

Portfolio Review—Asset Allocation

The Fund fell 2.65% during the quarter, while the Lipper Balanced Funds Index was up 1.28% and the S&P 500 Index rose 1.70%. The Fund is somewhat different from the typical balanced fund in that it holds primarily small- and mid-cap stocks versus its peers, which tend to hold large-cap stocks.

VILLERE BALANCED FUND PERFORMANCE (%) VILLX

INCEPTION 9/30/1999*

9/30/2019	Total Return			Average Annual Total Return				Cumulative	
	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	* Since Inception	* Since Inception	
Villere Balanced Fund	-2.65	15.30	-3.51	5.32	3.10	9.33	7.50	324.52	
Lipper Balanced Funds Index	1.28	13.62	4.94	7.56	6.18	7.97	5.52	193.00	
S&P 500 TR	1.70	20.55	4.25	13.39	10.84	13.24	6.33	241.48	
Bloomberg Barclays Intermediate Government/Credit Index	1.37	6.41	8.17	2.40	2.68	3.05	4.46	139.51	

Expense Ratio: 0.97%

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. Current performance data to the most recent month end may be obtained by visiting www.villere.com.

As long-term investors and as we celebrate the Villere Balanced Fund's 20-year anniversary, we want to recognize that the Fund has significantly outperformed its Lipper peer group and the S&P 500 Index over this period. The Fund's 20-year annualized return was 7.50%, outpacing the 5.52% of the Lipper Balanced Funds Index and 6.33% of the S&P 500 Index.

At the end of September, the Fund's asset allocation was 71.8% in stocks, 19.6% in bonds, and 8.6% in cash.

We use the fixed income allocation mainly to balance the risk in the Fund. 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 as we find current bond yields relatively unappealing. The asset allocation is generally a byproduct of the valuations we see on the equity side through our bottom up research efforts. If we believe the market is rich and it is hard to find reasonably priced stocks, we can increase the fixed income and cash components. Since we mainly use the fixed income component for potential income and stability, we have kept duration short in an effort to reduce risk.

Portfolio Review—Equities

LKQ Corp. was the top contributor to the performance in the third quarter. Other strong contributors included Pool Corp., Leggett & Platt, Inc., and Western Digital Corp. Detractors from performance included 2U, Inc., Abiomed, Inc., and Ebix, Inc.

During the quarter, we added to our positions in Abiomed and Ebix as we saw buying opportunities due to weakness in those stocks. We sold our holdings in Western Digital and 2U in September

2ND QUARTER TOP CONTRIBUTORS

LKQ Corp.

LKQ is a U.S.-based provider of alternative and specialty parts to repair and accessorize automobiles and other vehicles. The stock gained 18.2% in the third quarter, aided by news that an activist investment firm had purchased a 5.2% stake in the company. The stock was up 32.5% in 2019 as of the end of the third quarter. 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 compared to original equipment-manufacturers.

Pool Corp.

With more than 3,400 employees and over 300 locations worldwide, Pool leads the pack as the world's largest wholesale distributor of swimming pool supplies, equipment and related

leisure products. Pool also distributes irrigation and landscape products in the United States. The company's acquisitions and expansion have continued to drive growth. The revenue generated by the large replacement activity related to existing pools has also been robust. The stock gained 5.9% in the third quarter, and was up 36.9% for the year at the end of the third quarter.

Leggett & Platt, Inc.

Leggett & Platt is a diversified manufacturer that designs and produces various engineered components and products that can be found in most homes and automobiles. The stock rose 7.7% in the third quarter as Leggett reported higher than expected earnings in the second quarter, while lowering its 2019 guidance for sales and earnings. We believe that the company's acquisition of Elite Comfort Solutions will be positive for revenue growth going forward, and Leggett's dividends per share have been consistently increasing over time.

2ND QUARTER TOP DETRACTORS

2U, Inc.

2U works with major universities to create online graduate degree programs and certificates by providing systems and logistical support. 2U is at the forefront of this growing business, partnering with universities such as Yale, Harvard, New York University, Georgetown, and USC. The stock sank on the last day of July due to a significant and unexpected slowdown in growth and profitability, leading to a decline of 50.4% for the quarter. 2U's outlook guidance widely missed Wall Street earnings estimates, surprising analysts who pulled their buy ratings and lowered their target prices for the stock. 2U's revenue growth will likely be slowing as it focuses on controlling spending. We believe the market reaction was somewhat overblown, but sold the stock in September after it rose from the emotional reaction and due to limited further upside potential.

Abiomed, Inc.

Abiomed is a pioneer and global leader in healthcare technology and innovation—from the world's first total replacement heart to the world's smallest heart pump. The stock fell 31.7% in the third quarter as the company missed earnings expectations and its revenue growth slowed. However, we believe the slowdown seems to be mostly over and the pullback in the stock is overdone. Abiomed's core product is the Impella, a temporary heart pump. At 25% of the cost of a permanent heart pump, it is very cost effective and there is really nothing like it on the market at this price point. Surgeons we have interviewed like it very much and describe it as a "bridge to decision". Installing the temporary pump gives the doctor the ability to see what further intervention is necessary. With almost \$500 million in cash reserves, no debt, and with a product that is very difficult to replicate, we think this is an attractive opportunity.

Ebix, Inc.

Ebix is a provider of software and e-commerce solutions and services to the insurance, finance, and healthcare industries. Ebix was down 16.0% in the third quarter, reporting results below Wall Street expectations in August. While Ebix's revenue and profitability have 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. At the current valuation, we believe there is upside potential for the Ebix stock. We are keeping a close eye on the company and management team.

Villere Balanced Fund—Top Contributions & Detractors

Top Equity Performers 7/1/2019-9/30/2019	Average Portfolio Weight (%)	Return (%)
LKQ Corp.	3.61	18.19
Pool Corp.	4.96	5.90
Leggett & Platt, Inc.	3.53	7.71
Western Digital Corp.	0.67	8.29
Howard Hughes Corp.	4.80	4.65

Bottom Equity Performers 7/1/2019-9/30/2019	Average Portfolio Weight (%)	Return (%)
2U, Inc.	1.61	-50.45
ABIOMED, Inc.	2.75	-31.71
Ebix, Inc.	2.89	-15.99
Euronet Worldwide, Inc.	3.18	-13.04
Axon Enterprise Inc.	3.34	-11.57

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

Outlook and Strategy

The Fed and trade wars have been the main storylines for a while now, creating uncertainty in the market. The stock market volatility has been driven by the ongoing U.S. trade war with China, a briefly inverted yield curve, concerns about a slowing economy, and recession fears. The Fed also veered from raising interest rates, to lowering them, to now 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. We believe the Fed may cut interest rates one more time this year to keep the economy going.

Given the prospects of more headline news, uncertainty, and volatility, we will continue to run our selective, disciplined investment process. 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 have a larger cash position than we normally do, and are looking for dips in the market to buy new companies or add to existing holdings at more reasonable prices. We will continue to invest in growing, quality companies with strong free cash flow and strong balance sheets. We are keeping a balance between being optimistic and being defensive, and approach the market cautiously.

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 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 09/30/2019 were:**VILLERE BALANCED FUND**

Progressive Corp.	(PGR)	5.5%
Pool Corp.	(POOL)	5.4%
Howard Hughes Corp.	(HHC)	5.0%
WABCO Holdings Inc.	(WBC)	4.5%
Kearny Financial Corp.	(KRNY)	4.4%
STERIS Plc	(STE)	4.3%
LKQ Corp.	(LKQ)	4.3%
Teleflex, Inc.	(TFX)	4.3%
Roper Technologies, Inc.	(ROP)	4.2%
Visa, Inc.	(V)	4.1%

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.

Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa. Average Duration is a commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

Cash Flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income. Free cash flow is a measure of financial performance calculated as operating cash flow minus capital expenditures.

Earnings growth is a key indicator for measuring a company's success and a driving force behind stock price appreciation. Earnings growth is the percentage gain in net income over time.

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 is an equally weighted performance index of the largest qualifying funds in its Lipper Categories. The 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.

Russell Midcap Index measures the performance of the 800 smallest of the 1,000 largest publicly traded U.S. companies, based on total market capitalization.

It is not possible to invest directly in an index.

The Villere Funds are distributed by Quasar Distributors, LLC.