Market Review: A Terrific Year for Stocks Amid Volatility and Uncertainty

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>
> —Sandy Villere III

What a difference a year makes! 2019 saw a stock market that has completely turned the tables on 2018, when stocks fell sharply in the fourth quarter as investors considered trade war tensions, rising interest rates, slowing economic growth, recession fears, and a government shutdown. At the end of 2019, the environment was almost the polar-opposite, and the stock market finished the year with large gains.

The Fed and the U.S. trade war with China were the main storylines in 2019, creating volatility in the market.

The trade war took center stage as the world's two largest economies imposed tariffs on each other's imports. The back and forth between increasing tensions and threats of tariffs, and what appeared to be promising negotiations that an agreement would be reached, caused the market to sell-off or rally depending on the current sentiment. President Trump announced in December that the U.S. had reached a "phase one" trade deal with China, with tariffs postponed or reduced, and negotiations continue in 2020.

Stocks dropped late last year after the Fed raised interest rates for a fourth time in 2018 and signaled more rate hikes in 2019 despite a slowing economy. However, in 2019 the Fed changed its tune and first reassured nervous investors that it would not increase interest rates as it had indicated. Then in the second half of the year, the Fed lowered interest rates three times in an effort to boost the economy as the trade war and a global slowdown threatened to drag the U.S. economy into a recession. The Fed also started to buy securities again in 2019, adding about $60 billion into the financial markets every month. The Fed easing was a positive backdrop for equities for much of the year.

An inverted yield curve, where the interest rates on short-term bonds are higher than the interest rates paid by long-term bonds, also added to investors' worries about the economic outlook. Historically, an inverted yield curve has signaled a recession. As conditions improved, the yield curve was flat by the end of the year. Bond prices, which moves in the opposite direction from yields, rallied as the Fed lowered rates, so bonds also had a strong year.

Small company stocks, like those we focus on, had a strong fourth quarter, but lagged mid- and large-cap stocks for the past year. The performance of the S&P 500 was fueled throughout 2019 by a top-heavy concentration in surging technology stocks, which was by far the best performing sector in 2019.

VILLERE EQUITY FUND PERFORMANCE (%) VLEQX — **INCEPTION 05/31/2013**

12/31/2019	Total Return			Average Annual Total Return				
	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	*Since Inception	*Since Inception
Villere Equity Fund	7.03	24.50	24.50	7.52	4.05	N/A	4.28	31.80
Lipper Mid-Cap Growth Funds Index	7.55	33.83	33.83	17.58	11.33		12.61	118.63
S&P 500 TR	9.07	31.49	31.49	15.27	11.70		13.24	126.81

Expense Ratio: 1.25%

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.

The technology-dominated NASDAQ Index was up 12.17% in the fourth quarter and 35.23% in 2019, briefly reaching above 9,000 for the first time in December. The Russell 2000 Index (which tracks small-cap stocks) gained 9.94% and 25.52%, the Russell Midcap Index rose 7.06% and 30.54%, while the S&P 500 gained 9.07% and 31.49%, in the fourth quarter and for the year, respectively.

Portfolio Review

The Fund rose 7.03% in the fourth quarter, while the Lipper Mid-Cap Growth Funds Index was up 7.55% and the S&P 500 Index gained 9.07%. The Fund held significantly more cash than we typically have as we looked to reduce risk with the stock market reaching record levels and valuations were high. Investors also had a bias for larger companies over mid-caps stocks during the quarter.

During the fourth quarter we purchased eHealth, Inc., which was the top contributor to the performance in the quarter. Other strong contributors in the period included On Semiconductor Corp., Leggett & Platt, Inc., Axon Enterprise, Inc., and LKQ Corp. Detractors from performance included Ebix, Inc., Progressive Corp., and Abiomed, Inc.

During the quarter, we trimmed our position in Axon Enterprise and sold Leggett & Platt, both strong long-term performers in the Fund.

4TH QUARTER TOP CONTRIBUTORS

eHealth, Inc.

eHealth, Inc. is a leading online health insurance platform that simplifies the process for consumers to compare and shop for private health insurance plans. eHealth offers more than 10,000 plans from over 180 companies, including many of the nation's leading health insurance companies. The company primarily provides plans related to Medicare, with an opportunity to capitalize on the large number of Americans turning 65 every day and the growth in Medicare Advantage. eHealth's stock gained 63.8% since we bought the shares in the fourth quarter. The company reported earnings that significantly exceed expectations, increased its guidance going forward, and showed solid subscriber growth.

ON Semiconductor Corp.

ON Semiconductor Corp. is a Fortune 500 company that manufactures and sells semiconductors for various devices worldwide. It is driving energy efficient innovations, and empowers customers to reduce global energy use. The stock was up 26.9% in the fourth quarter, aided by a truce in the trade war with China. ON is well-positioned to benefit from what we believe will be a massive 5G cellular buildout over the next several years. ON recently bought Quantenna, which should be accretive to earnings and add to its home Wi-Fi exposure.

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. Before we sold the stock in November, the stock rose 31.9% in the fourth quarter, up 55.1% for the year. The gain was fueled by higher than expected earnings, accelerating free cash flow, a positive acquisition, and a dividend payout that has been consistently increasing over time. We sold the stock due to its premium valuation after the strong run, and limited upside potential going forward.

4TH QUARTER TOP DETRACTORS

Ebix, Inc.

Ebix is a provider of software and e-commerce solutions and services to the insurance, finance, and healthcare industries. Ebix was down 20.5% in the fourth quarter. 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. Ebix reported record quarterly results in November. At the current valuation, we believe there is upside potential for Ebix, particularly from the Indian IPO of EbixCash, which we expect in 2020. We are keeping a close eye on the company and management team.

Progressive Corp.

Progressive is one of the largest providers of car insurance in the United States. The company also insures motorcycles, boats, RVs and commercial vehicles, and is growing its home insurance business. The stock fell 6.2% in the fourth quarter as it reported mixed earnings. However, we believe Progressive is well positioned for growth and offers solid long-term potential for revenue growth, strong earnings, recurring cash flow, and an attractive dividend payout.

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 4.1% in the fourth quarter as the company missed quarterly earnings expectations. 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 little competition in the market at this price point. 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 believe in the long-term potential of the stock.

Villere Equity Fund—Top Contributions & Detractors

Top Equity Performers 9/30/2019–12/31/2019	Average Portfolio Weight (%)	Return (%)
eHealth, Inc.	4.55	63.79
ON Semiconductor Corp.	4.68	26.91
Leggett & Platt, Inc.	1.26	31.90
Axon Enterprise Inc.	2.18	29.06
LKQ Corp.	4.44	13.51

Bottom Equity Performers 9/30/2019–12/31/2019	Average Portfolio Weight (%)	Return (%)
Ebix, Inc.	4.32	-20.47
Progressive Corp.	5.16	-6.17
Howard Hughes Corp.	4.02	-2.16
Abiomed, Inc.	4.67	-4.10
Roper Technologies, Inc.	4.58	-0.53

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

Outlook and Strategy

The U.S.-China trade war was one of the biggest drivers for stocks in 2019. The fear of trade war escalation has subsided at the moment with a "phase one" deal in place and the apparent trade truce. There is a risk that the trade war continues in 2020, but we may have a resolution, or at least an improvement, as we get close to the presidential election in November. Stock prices today reflect a better trade environment, presenting a potential downside risk if no agreement is made.

While the U.S. economy is expected to continue its slowdown in 2020, the outlook for the economy is fairly benign given strong consumer spending and a good labor market. The Fed is accommodative and is keeping interest rates low. The Fed is likely to remain so through the election and until it sees a persistent increase in inflation above its 2% target.

We are mindful of a potential recession. The economic expansion is nearly 11 years old and eventually we will have a recession to end the cycle. However, when there is a recession, we believe it will be a shallow one. Fed leaders have stressed that they do not see a recession on the horizon. The interest rate reductions were "insurance" cuts that were meant to give the economy extra protection in a world of rising uncertainty.

Very low interest rates make stocks look more attractive compared to bonds. We believe passive investing and inflows into ETFs and funds that track the S&P 500 Index have resulted in many large-cap stocks becoming artificially inflated, including the top-heavy tech portion of the index. We think there is more value offered in the small- and mid-cap area, which has lagged large caps during the past few years.

2019 pushed the market to record highs and stretched valuations, and we approach the market cautiously going into 2020. After such a strong year and almost 11 years into the bull market, we believe 2020 will generate more moderate returns. We believe the opportunities in 2020 will be created by shorter periods of volatility led by political, economic, and monetary policy uncertainty. For example, the 2020 presidential election cycle will likely produce elevated instability. We have a larger cash position than normal and are looking for dips in the market to buy new companies or add to existing holdings at more reasonable prices.

It is also worth noting that there is currently about $3.6 trillion in cash on the sidelines, approaching the highest levels since March of 2009. This bearish sentiment could potentially be good news for stocks if investors choose to put their cash back into the stock market.

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 12/31/2019 were:

VILLERE EQUITY FUND

eHealth	(EHTH)	6.5%
ON Semiconductor Corp.	(ON)	5.2%
Visa, Inc.	(V)	5.2%
Teleflex, Inc.	(TFX)	5.0%
Pool Corp.	(POOL)	5.0%
Progressive Corp.	(PGR)	5.0%
WABCO Holdings Inc.	(WBC)	4.9%
STERIS Plc	(STE)	4.8%
First Hawaiian	(FHB)	4.6%
Roper Technologies, Inc.	(ROP)	4.5%

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

Lipper Mid-Cap Growth Fund Index is an equally weighted performance index of the largest qualifying funds in its Lipper Category. 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.