VILLERE & Co
SELECTIVE INVESTING SINCE 1911

Market Review: Stocks fell sharply on COVID-19 fears

After hitting record highs in mid-February, the stock market fell sharply as concerns about the global coronavirus ("COVID-19") pandemic and its impact on companies and the economy mounted.

The S&P 500 Index was down 19.6% in the first quarter and the Russell 2000 Index, which tracks stock performance of small companies, declined 30.6%.

Wall Street's "fear gauge", the CBOE volatility index (VIX), spiked to its highest level since the 2008 financial crisis. Bonds rallied as a result of the flight to quality, and the yield on the 10-year U.S. Treasury Note was a stunning 0.70% at the end of the quarter. The Bloomberg Barclays Intermediate Government/Credit Bond Index posted a gain of 2.4%.

Oil prices dropped more than 60%, reaching the lowest level since 2002, adding to concerns about the direction of the U.S. economy and the stock market.

The Federal Reserve acted swiftly and launched its most wide-ranging stimulus efforts since the financial crisis in 2008-09 to keep the economy stable, financial markets flowing freely, insert liquidity, and to make borrowing costs as low as possible. The actions included a sudden cut of its interest rate target to zero, and a revival of the Fed's quantitative easing program with a new round of unlimited asset purchases.

The government announced a $2 trillion stimulus program that includes one-time payments to individuals, strengthening unemployment insurance, additional healthcare funding, and loans and grants to businesses.

> "Many high-quality companies have sold off along with the overall market. Looking back, crises have typically presented opportunities."
>
> —Lamar Villere, CFA

What started out as a negative supply shock with factory shutdowns and supply chain disruptions, turned into a severe demand shock as people are staying at home and consumer spending has sharply declined. As a result, the U.S. economy has now fallen into a recession with unemployment numbers unlike anything the nation has ever seen, and companies are facing lower earnings.

VILLERE BALANCED FUND PERFORMANCE (%) VILLX — **INCEPTION 9/30/1999***

3/31/2020	Total Return			Average Annual Total Return				Cumulative
	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	*Since Inception	*Since Inception
Villere Balanced Fund	-18.82%	-18.82%	-12.53%	-0.69%	-0.38%	6.67%	6.51%	264.18%
Lipper Balanced Funds Index	-12.94%	-12.94%	-4.05%	2.82%	3.50%	6.25%	4.93%	168.46%
S&P 500 TR	-19.60%	-19.60%	-6.98%	5.10%	6.73%	10.53%	5.50%	199.46%
Bloomberg Barclays Intermediate Government/Credit Index	2.40%	2.40%	6.88%	3.79%	2.76%	3.14%	4.49%	146.18%

Expense Ratio: 1.00%

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.

Portfolio Review-Asset Allocation

The Fund was down 18.82% during the quarter, while the Lipper Balanced Funds Index declined 12.94% and the S&P 500 Index fell 19.60%. 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. This hurt the relative performance as small-cap stocks significantly underperformed large-cap stocks.

At the end of March, the Fund's asset allocation was 70.4% in stocks, 25.0% in bonds, and 4.6% 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. Given the decline in equities this quarter, our fixed income allocation has increased slightly, and we are currently in the middle of that range. We find current bond yields relatively unappealing. Since we mainly use the fixed income component for potential income and stability, we have kept duration short in an effort to reduce risk. We held more cash than normal as we entered the quarter as the stock market reached record levels and valuations were high.

Portfolio Review–Equities

eHealth, Inc. had an outstanding quarter and was the top contributor to the Fund's performance. Progressive Corp. also performed well during this market decline, and WABCO Holdings, Inc. also helped the Fund's return before we sold our position. Detractors from performance included Howard Hughes Corp., Eldorado Resorts, Inc., and LKQ Corp.

During the quarter, we sold our position in WABCO Holdings, Inc. as we near the company's acquisition by ZF Friedrichshafen. We added to our position in Euronet Worldwide, Inc. as we saw a buying opportunity due to weakness in the stock price.

We bought Ligand Pharmaceuticals, Inc., a biopharmaceutical company focused on developing or acquiring technologies that help partner pharmaceutical companies discover and develop medicines. The company has great products in the pipeline and partnerships in place, providing opportunities for future revenue generation that could lead to meaningful upside potential for the company and stock.

We also purchased Eldorado Resorts, Inc., a casino operator, and OneSpaWorld Holdings, Ltd., the leading operator of cruise ship-based health spas. These two purchases were, in hindsight, poorly timed as COVID-19 was devastating to the gaming and cruise industries. We sold our position in OneSpaWorld due to concerns about the long-term potential given the impact of COVID-19.

1ST 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. While it was a very volatile quarter for eHealth's stock, it gained 46.6% by end of March, continuing its strong performance from the fourth quarter when we bought the stock. The company reported earnings that significantly exceeded expectations, increased its guidance going forward, and showed solid subscriber growth.

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 rose 5.3% in the first quarter, aided by the view that this will be relatively good year for the company if people stay at home more and move around less, and as a result reducing traffic accidents. 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.

WABCO Holdings, Inc.

WABCO is a provider of electronic braking, stability, suspension and transmission automation systems for heavy duty commercial vehicles. The company is in the process of being acquired by German company ZF Friedrichshafen AG. As a result, we sold the stock in early March as we believe there is limited upside potential at this time. The stock was almost flat for the quarter, up 0.1%, at the time when we sold the position, which was positive for the Fund's return in this down market for stocks.

1ST QUARTER TOP DETRACTORS

Howard Hughes, Inc.

Howard Hughes owns, manages and develops commercial, residential and mixed-use real estate throughout the U.S. The stock declined 60.2% in the first quarter, dropping sharply in March as COVID-19 has upended daily life. The outlook for massive planned communities as well as office space has become murkier in the COVID-19 environment. On March 27th, Howard Hughes held a public offering of common stock of up to $500 million worth of shares as well as a concurrent private placement. The company expects to use the net proceeds of the proposed offering to strengthen its balance sheet and provide liquidity.

Eldorado Resorts, Inc.

As mentioned earlier, COVID-19 was devastating to the gaming industry. Eldorado Resorts declined sharply in March along with other casino stocks after casinos closed and investors worried about how long the casinos will stay closed. Further complicating Eldorado's outlook is the acquisition of Caesars Entertainment, a deal that was set to close in the second quarter. However, the COVID-19 pandemic may slow down the regulatory review of the deal. As a result, the stock was down 76.5% in the first quarter.

LKQ Corp.

LKQ is a U.S.-based provider of alternative and specialty parts to repair and accessorize automobiles and other vehicles. The automotive industry was hit hard by COVID-19 and car companies were forced to cut production. The ripple effect was also felt by suppliers, such as LKQ, as driving and the demand for replacement parts are expected to decline. LKQ's stock fell 42.5% in the first quarter. However, we believe LKQ is well positioned since the company serves the aftermarket, and also because insurance companies compete on price and need to be cost effective on claims expenses.

Villere Balanced Fund—Top Contributions & Detractors

Top Performers 1/1/2020–3/31/2020	Average Portfolio Weight (%)	Return (%)
eHealth, Inc.	6.59	46.57
Phillips 66 4.3% 4/1/2022	5.14	1.27
Progressive Corp.	5.87	5.30
Equifax, Inc. 3.3% 12/15/2022	2.51	2.34
Hubbell, Inc. 3.5% 2/15/2028	0.54	5.09

Bottom Performers 1/1/2020–3/31/2020	Average Portfolio Weight (%)	Return (%)
Howard Hughes Corp.	4.27	-60.16
Eldorado Resorts, Inc.	1.94	-76.52
LKQ Corp.	4.32	-42.55
Kearny Financial Corp.	4.16	-37.43
First Hawaiian, Inc.	3.79	-42.18

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

Outlook and Strategy

We believe concerns about COVID-19 and its impact on the financial markets will continue until investors see more clarity regarding the containment of the virus. As such, increased stock market volatility will likely be the norm for the foreseeable future. The economic data in the weeks and months ahead will also likely be weak.

The stay-at-home lockdown in response to the COVID-19 outbreak has delivered a severe shock to the economy. While the market has factored in a lot of negative news about the economy, the question is whether it has been enough. Bear markets are typically volatile and often see sharp rebounds before retesting lows or going on to decline even further before finding a bottom. At its low during the sell-off, the S&P 500 was down 34% from its high in just a month, which is roughly the average decline in a recession. The market then rebounded nearly 20%. Small-cap stocks fell 39% from the high, before making up some of the losses the last week of March.

Very low interest rates make stocks look more attractive compared to bonds. Small-cap stocks are back to early-2016 levels, and we think there is more value offered in the small- and mid-cap area compared to large caps.

Our focus is on individual companies. We will continue to evaluate our portfolio holdings and the investment environment, as well as monitor signs that the worst of the COVID-19 crisis may soon hopefully be behind us. We have a larger cash position than normal, and we look to take advantage of select opportunities that this market sell-off may provide.

We hope that you and your families are safe and staying well during this challenging time. We recognize that market volatility and sharp declines are unsettling. 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 Villere & Co., are subject to change, are not guaranteed, and should not be considered recommendations to buy or sell any security.

The Top 10 equity holdings in the funds as of 3/31/2020 were:

VILLERE BALANCED FUND

eHealth	(EHTH)	9.9%
Progressive Corp.	(PGR)	6.8%
Pool Corp.	(POOL)	6.8%
Steris Plc	(STE)	5.5%
Visa, Inc.	(V)	5.0%
Teleflex, Inc.	(TFX)	4.8%
Roper Technologies, Inc.	(ROP)	4.8%
Kearny Financial Corp.	(KRNY)	3.8%
LKQ Corp.	(LKQ)	3.7%
First Hawaiian, Inc.	(FHB)	3.0%

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.

CBOE Volatility Index (VIX) is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index (SPXSM) call and put options. On a global basis, it is one of the most recognized measures of volatility—widely reported by financial media and closely followed by a variety of market participants as a daily market indicator.

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.

It is not possible to invest directly in an index.

The Villere Funds are distributed by Quasar Distributors, LLC.