

Market Review: Stocks rally sharply fueled by unprecedented support from the Fed

It was a remarkable recovery for the stock market, which had its best quarter since late 1998. The S&P 500 Index gained 20.5% in the second quarter and the Russell 2000 Index, which tracks performance of small companies, rose 25.4%.

Rarely has the stock market seemed so disconnected from the economy, and it may seem baffling how the stock market could rally so much with all of the turmoil around us. However, it is important to remember that the stock market is forward-looking and looks at where we will be 6-9 months from now.

While there was optimism about the economy reopening, hopes of a vaccine, and signs that the economic recovery has begun, the stock market performance was primarily driven by the unprecedented support by the Federal Reserve (Fed) and government stimulus. Investors largely shrugged off bad news; the lockdowns, large unemployment numbers, social unrest, and gave stocks a “free pass” on the underlying fundamentals of many companies despite lower expectations for corporate earnings.

In response to the COVID-19 crisis, the Fed cut its interest rate

target to zero in March. The Fed have said that they will not only keep rates low, but they have added significant liquidity (cash) into the economy and made unprecedented asset purchases to keep credit markets stable, indirectly also boosting the stock market. With the Fed promising to do whatever is needed to support the markets, many investors feel the Fed has provided a backstop for the markets. The popular Wall Street saying “Don’t fight the Fed” is very relevant today.

The government’s stimulus program has also helped stabilize the market. One-time payments to individuals, strengthening unemployment insurance, additional healthcare funding, and loans and grants to businesses are all supporting the economic recovery.

The Fed’s action made interest rates on cash and bonds so low that many investors also felt that they had little choice but to buy stocks. The yield on the 10-year U.S. Treasury Note was 0.65% at the end of the quarter.

“The stimulus from the Fed is simply unprecedented and the old saying ‘Don’t fight the Fed’ is very relevant today.”

—Sandy Villere III

VILLERE EQUITY FUND PERFORMANCE (%) VLEQX

INCEPTION 05/31/2013*

6/30/2020	Total Return			Average Annual Total Return			Cumulative	
	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	* Since Inception	* Since Inception
Villere Equity Fund	17.29%	-8.23%	-5.60%	2.08%	1.13%	N/A	2.72%	20.96%
Lipper Mid-Cap Growth Funds Index	30.93%	5.03%	11.23%	14.37%	11.23%		12.46%	129.64%
S&P 500 TR	20.54%	-3.08%	7.51%	10.73%	10.73%		11.76%	119.82%

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.

Portfolio Review

The Fund rose 17.29% in the second quarter, while the Lipper Mid-Cap Growth Funds Index gained 30.93% and the S&P 500 Index increased 20.54%.

As we entered the quarter, the Fund held significantly more cash than normal as we had looked to reduce risk in the first quarter prior to the stock market crash. As mentioned below, we put cash to work during second quarter to buy stocks that were undervalued, and we also sold some stocks with high valuation, increasing the cash position again. Holding any cash was a drag on performance in the second quarter.

Abiomed, Inc., Ligand Pharmaceuticals, Inc., and Eldorado Resorts, Inc. all had an outstanding quarter and were the top contributors to the Fund's performance. Detractors from performance included eHealth, Inc., 3D Systems Corp., and Kearny Financial Corp.

We purchased J.B. Hunt and TTEC Holdings, Inc., and added to our positions in Stryker Corp. and Eldorado Resorts.

J.B. Hunt is one of the largest transportation logistics companies in North America. We thought the stock was oversold because it was exposed to the economy and impacted in the short-term by the COVID-19 lockdown. It provided an excellent opportunity to buy an industry-leading company at a great valuation, which also served us well during the quarter.

Stryker is an industry-leading medical device company. They supply their products to hospitals and orthopedic surgeons that are installing anything from knee and hip replacements to spine surgeries. Stryker is gaining market share with its Mako robotic arm, which enables a more predictable surgical experience when performing joint replacement surgery. Due to the lockdown, many of these procedures were considered nonessential, and Stryker's stock fell. It provided an opportunity to add to our position at a very good valuation.

TTEC Holdings, Inc. is primarily focused on offering personalized customer experiences to organizations worldwide, across every interaction channel and phase of the customer lifecycle, as an end-to-end provider of customer engagement services, technologies, and insights. We believe TTEC is seeing incredible growth in its digital segment as its Fortune 500 customers increasingly want to offer TTEC's end-customers a digital end-to-end customer experience. For example, TTEC has 6 of the top 10 health care payers as customers and 5 of the largest automotive brands.

During the quarter, we trimmed our positions in Abiomed, Inc., Pool Corp., and eHealth after strong gains due to the run-up in the market. We also trimmed our holding in 3D Systems. We sold our positions in Western Digital Corp. and Axon Enterprise, Inc. after they exceeded our price targets. Axon had strong gains as a result of the protests and social unrest that began in Minneapolis and the demand for Axon's body cameras and tasers from the police.

2ND QUARTER TOP CONTRIBUTORS

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 rose 66.4% in the second quarter and, as mentioned, we trimmed our position and took some profits. 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. We spoke to surgeons who were performing less surgeries, using the Impella device, as they took a backseat to COVID-19 patients. We expect the business to bounce back in the second half of 2020 due to pent up demand.

Ligand Pharmaceuticals, Inc.

Ligand Pharmaceuticals is a biopharmaceutical company focused on developing or acquiring technologies that help partner pharmaceutical companies discover and develop medicines. The stock rose 53.8% in the second quarter. 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. Ligand also has a big tail wind with its Captisol drug delivery technology that it is selling to Gilead Sciences for Remdesivir to treat COVID-19.

Eldorado Resorts, Inc.

Eldorado Resorts is a casino entertainment company and it engages in gaming operations and manages hotels, restaurants, bars, racing, retail shops, and other services. The stock had a staggering decline in February and March along with other casino stocks after they had to close due to COVID-19, but Eldorado's stock rebounded sharply in the second quarter, gaining 178.2%. Eldorado is currently in the process of acquiring Caesars Entertainment, a deal that should close in July. It will make Eldorado the largest operator of gambling establishments in the U.S. Tight controls on costs as they reopen are helping to make the company's regional casinos more profitable.

2ND QUARTER TOP DETRACTORS

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. After a very strong first quarter, eHealth fell 30.2% in the second quarter. Although there was a negative report from a hedge fund regarding

revenue recognition, we believe this is unfounded as eHealth is using standard accounting practices for its industry.

3D Systems Corp.

3D Systems is a pioneer in 3D printing and provides comprehensive 3D products and services, including 3D printers, print materials, on-demand parts services, and digital design tools. Shares of 3D's stock decreased 9.3% during the quarter. The COVID-19 pandemic hurt the company's results, including lower customer demand. 3D's new management also said that the company experienced supply chain interruptions. We trimmed our position in 3D during the quarter and are watching the company closely for continued revenue growth and new product launch details. This should occur as a result of end-user demand from increases in industries like automotive, aerospace, and healthcare.

Kearny Financial Corp.

Kearny Financial is the parent company of Kearny Bank, which has 42 retail branch offices in New Jersey and New York. The stock was down 3.9% for quarter. The banking industry has been hard-hit by the heightened credit risk from COVID-19, compelling banks to ramp-up loan loss reserves. Kearny Financial's acquisition of MSB Financial Corp. is expected to be completed in July, which will expand Kearny's footprint.

Villere Equity Fund—Top Contributions & Detractors

Top Performers 3/31/2020–6/30/2020	Average Portfolio Weight (%)	Return (%)
ABIOMED, Inc.	4.88	66.41
Ligand Pharmaceuticals Corp.	5.31	53.81
Eldorado Resorts, Inc.	2.46	178.19
ON Semiconductor Corp.	3.84	59.32
Pool Corp.	4.95	38.53

Bottom Performers 3/31/2020–6/30/2020	Average Portfolio Weight (%)	Return (%)
eHealth, Inc.	6.84	-30.24
3D Systems Corp.	1.77	-9.34
Kearny Financial Corp.	2.80	-3.86
Howard Hughes Corp.	1.95	-2.83
Short-Term Investments Trust	20.16	0.11

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

Outlook and Strategy

We are cautiously optimistic about the outlook and we believe the stock market will be choppy in the second half of 2020. We may see a quick economic recovery, powered by unprecedented monetary and fiscal stimulus and the reopening of states' economies, and there is optimism about potentially finding a vaccine and treatment for COVID-19. On the other hand, the recent spike in COVID-19 cases may slow the recovery, unemployment will likely remain high for a long time, there is uncertainty regarding the election in November, and tensions between U.S. and China over the virus and the trade agreement.

Very low interest rates make stocks look more attractive compared to bonds. Small-cap stocks typically outperform large-cap stocks coming out of a recession and during an economic recovery. Despite the strong second quarter, we think there is more value offered in the small- and mid-cap area compared to large caps.

Our focus is on individual companies. Given the prospects of more uncertainty and volatility, we will continue to run our selective, disciplined investment process. We believe it is important invest in high quality stocks in the small- and mid-cap space as well, and in companies that are profitable businesses that display profit growth and have a strong outlook.

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 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.

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 6/30/2020 were:**VILLERE EQUITY FUND**

Progressive Corp.	(PGR)	5.7%
Visa, Inc.	(V)	5.5%
Ligand Pharmaceuticals, Inc.	(LGND)	5.5%
Roper Technologies, Inc.	(ROP)	5.1%
Teleflex, Inc.	(TFX)	5.0%
Steris Plc	(STE)	5.0%
Pool Corp.	(POOL)	4.8%
Eldorado Resorts, Inc.	(ERI)	4.4%
ON Semiconductor, Inc.	(ON)	4.4%
Abiomed, Inc.	(ABMD)	4.3%

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.

The Fund does not hold any shares of Gilead Sciences, Apple, Amazon, or Microsoft.

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.

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.