REPRINTED FROM JULY 13, 2020

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Looking for Tomorrow's Companies with Opportunities to Outperform

ST. DENIS VILLERE III is Partner and Portfolio Manager at Villere & Co. Mr. Villere joined Villere & Co. in 1999 when he launched Villere's first mutual fund. He started his career as an institutional research analyst and equity sellside analyst with Gerard Klauer Mattison, a Wall Street institutional equity research firm. He earned a B.S. in finance from Southern Methodist University. He is a member of the CFA Institute. Mr. Villere has been frequently quoted by *The Wall Street Journal*, Associated Press and Reuters. He is a regular guest on CNBC and other financial media outlets. Mr. Villere dedicates much of his personal time to New Orleans charities. He loves coaching his sons in sports and is currently President of Carrollton Boosters, a youth sports league with about 5,000 participants. Mr. Villere is married with three children.

SECTOR — GENERAL INVESTING

TWST: Are we in any kind of economic recovery at the moment?

Mr. Villere: Yes. I would say that the stock market is very forward looking. It discounts the future by about four months. When you saw the lows around March 23rd, we were experiencing a recession, and now we are actually in a recovery that is going to continue through the end of this year. A recovery has really started in May, but the market already knew it was coming.

TWST: So investors should look at the dynamics of the stock market as a signal on the economy and perhaps not be too dismayed by, say, unemployment figures then?

Mr. Villere: That's right. Investors can look at the types of companies that would do better in an economic recovery. In other words, if you were looking at small-cap stocks, those would certainly do poorly going into the recession as they have, and they have underperformed. Now I believe that those investments can lead coming out of the recession.

Despite the unemployment figures now, we are probably already in a recovery, with the recession having begun in February. When you look at the jobs numbers, they are going to start to get better each and every month as the shutdown brings people back to work finally.

TWST: You have a product called the Balanced Fund (MUTF:VILLX). Why would this be a good place for investors to place their money?

Mr. Villere: We have an allocation of about 25% to 30% in fixed income, which offers potential stability. Then, about 60% to 70% of our Balanced Fund is invested in stocks, and the stocks we buy tend to be more small and midcap. We believe that in a recovery, you could certainly get some outsized performance from some of the names that have been overlooked by Wall Street. Lower interest rates also help small companies, and when you couple that with their underperformance versus large caps, they should revert to the mean and get some relatively better returns.

TWST: How would you characterize the fund's performance?

Mr. Villere: Over the short run, it has actually lagged due to the incredible performance of the FAANG stocks, the **Facebook** (NASDAQ:FB), **Apple** (NASDAQ:AAPL), **Amazon** (NASDAQ:AMZN), **Netflix** (NASDAQ:NFLX), **Googles** (NASDAQ:GOOG) of the world. Over the longer term, it has performed above its peers. We think that things will deviate back to the mean, and it is an opportunity to buy a collection of companies that have been overlooked.

TWST: Now at 20 to 30 holdings, which I see in your literature, the fund seems fairly concentrated. Why was that decision made to be so concentrated?

Mr. Villere: In this day and age, investors should either index, or they should concentrate. We don't think you should have an active manager that's buying 300, 400 or 500 companies. We think you're going to end up with average returns. We are trying to take our very best ideas and concentrate on only owning 20 to 30 names that we think will give the fund a chance to outperform.

TWST: Can you briefly describe your process, and is any part of it top down?

Mr. Villere: No. We are really bottom-up investors. We really don't look at what's going on in the economy and try to figure the macro and then trickle down to individual stocks. We take the opposite approach and look at very good companies that have low debt and strong cash flow characteristics. We like companies that are low price-to-earnings relative to their growth potential.

"While we are multicap, we do focus on the smaller- and mid-cap names, as we find those are where most of the value is that maybe Wall Street hasn't seen. We love companies that are either contrarian or maybe out of favor or dominate a particular niche and that have high barriers to entry, making it difficult for other businesses to enter."

While we are multicap, we do focus on the smaller- and mid-cap names, as we find those are where most of the value is that maybe Wall Street hasn't seen. We love companies that are either contrarian or maybe out of favor or dominate a particular niche and that have high barriers to entry, making it difficult for other businesses to enter. If we can get that collection of characteristics, our companies should perform well over a full market cycle.

TWST: What is the turnover, and what criteria prompt a selling or a buying event?

Mr. Villere: We joke that our favorite holding period is forever, but in reality, our turnover is going to typically be about 20% or 25%, which implies a holding period of about four or five years. We know it can take years for our companies to experience multiple expansion as the companies become more consistent and well-known. We are also a tax-efficient manager, so almost never take short-term expensive capital gains.

When we go to sell a name, it is because it has become too large of a position in the portfolio, so maybe we need to pare it back if it's been very successful. We will also sell due to valuation. If it gets to a point where it has reached our target of where we think the stock can be 12 months from now, then we will use that as a selling opportunity, or if they make an acquisition and they get into a business that perhaps it is not what we originally invested in that company for, we may sell. We will also sell a name if our thesis just never played out, and we were wrong on an idea or industry.

TWST: What changes have you made to the fund lately given what's been going on with the economy?

Mr. Villere: When the market bottomed around March 23rd, we did have a large percentage of cash in our Balanced Fund. Really, the most we can have is about 10%, and that's about where we were. We were able to invest some of those dollars in early April and bought positions in **J.B. Hunt** (NASDAQ:JBHT) as well as **Stryker** (NYSE:SYK), which are two great companies that should do well over the very long term. While we didn't know where the bottom of the stocks were or the market, we sort of believed that when something comes down to a valuation that discounts some really bad news that it is worth investing in as expectations are zero.

Highlights

St. Denis Villere III discusses the Villere Balanced Fund. The fund is comprised of 25% to 30% fixed income and 60% to 70% stocks. Mr. Villere tends to buy small caps and midcaps. He says the fund is concentrated with the best ideas to give it a chance to outperform. Mr. Villere describes the fund as being a collection of companies that have been overlooked. He is focused on buying tomorrow's companies.

Companies discussed: Facebook (NASDAQ:FB); Apple (NASDAQ:AAPL); Amazon.com (NASDAQ:AMZN); Netflix (NASDAQ:NFLX); Alphabet (NASDAQ:GOOG); J.B. Hunt Transport Services (NASDAQ:JBHT); Stryker Corporation (NYSE:SYK); Abiomed (NASDAQ:ABMD); Pool Corporation (NASDAQ:POOL); eHealth (NASDAQ:EHTH); Expedia Group (NASDAQ:EXPE); SelectQuote (NYSE:SLQT); Ligand Pharmaceuticals (NASDAQ:LGND); Gilead Sciences (NASDAQ:GILD); Ebix (NASDAQ:EBIX); Yatra Online (NASDAQ:YTRA); Microsoft Corporation (NASDAQ:MSFT); AT&T (NYSE:T) and JPMorgan Chase & Co. (NYSE:JPM).

More recently, with the run-up in the market, we have trimmed out a couple of names that have done quite well. We sold off a little bit of **Abiomed** (NASDAQ:ABMD) and of **Pool Corporation** (NASDAQ:POOL). We still like those names. We are just selling them down to a model weight and raising a little bit of cash in the portfolio.

TWST: Do you have a ceiling on the weightings for each holding?

Mr. Villere: Yes. Due to our concentration, we typically buy about a 3.5% or 4% position in the portfolio. Anytime a holding gets to almost a double weighting, which could be as much as 7% or 8%, we tend to trim it back to where it would be, more like a 3.5% or 4% position. We just don't want to have too much in any one idea, as much as we might like that idea. But we still think that's a pretty concentrated position, even at 4%.

TWST: Can you talk about some of the specific holdings? There are a lot of good companies out there. You clearly have to make your decisions wisely because you have a lot of choices. Tell us more about how you make your selections and why you like the companies that you do.

Mr. Villere: Stryker is interesting because we tend to do a lot of research and talk to a lot of orthopedic surgeons that were installing anything from knee replacements to hip replacements to spine surgeries. **Stryker** is an absolutely industry-leading medical device company. However, over the short run, interviewing many of these orthopedic surgeons, we found that their businesses literally were going to zero. They stopped performing any of these things during the shutdown, as many of these procedures were considered nonessential.

Therefore, the stocks went down, and I think that just sets up as a perfect opportunity to buy an industry-leading company at an extremely reasonable valuation knowing that these nonessential surgeries will come back. That was our thesis. So we decided to invest in a top company while there was a short-term blip in its business. We have since done other interviews on how these procedures are coming back and people are coming back in, maybe not at 100%, but certainly at 60% to 70%. We believe that stock will do well over the next three to five years, and we think we bought in at a great valuation.

1-Year Daily Chart of J.B. Hunt Transport Services

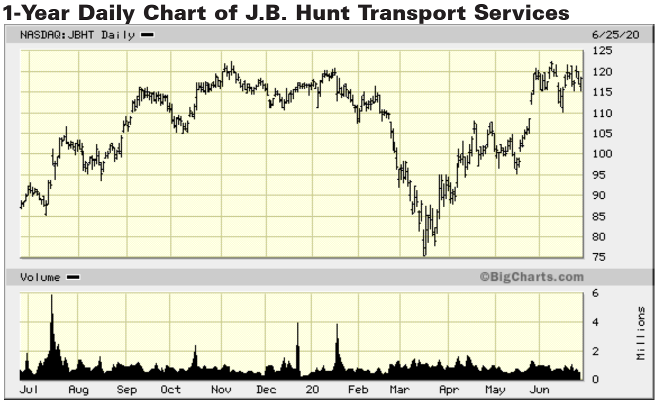

Chart provided by www.BigCharts.com

something like that, they would actually send them home and would tell them to just come back soon once the COVID crisis had passed.

The Impella is a temporary heart pump, and so if it was a critical open-heart surgery, they would certainly perform it. So while they had a blip in their business, the stock came roaring back, at up to about 42% year to date. The stock is a little bit ahead of itself from maybe where the fundamentals are in the business. We decided to just trim it back to model, given the run-up that it has made.

On the **Pool Corporation**, it is an incredible business that we have owned literally since 1996. Their pool distribution business is as big as their other top 50 competitors combined. As everybody has stayed at home, more and more people began to swim in their pools, and these pools consume a lot of chlorine. About 65% of **Pool's** business is just repair and maintenance of the swimming pool, including servicing it with chlorine and things like that.

They have had a huge tailwind. The stock has gotten to a valuation that I don't think we've seen in the company's history. For us, it was an opportunity to put some points on the board and sell something at a valuation that was a little bit stretched. We still have a core position in it, but we did take some profit.

TWST: What about some other selections? I'm reading in your literature; it looks like you have made some investments in eHealth and Ligand Pharmaceuticals?

Mr. Villere: eHealth (NASDAQ:EHTH) is a great story

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TWST: And on J.B. Hunt, was that choice made similarly on a sense of undervaluation?

Mr. Villere: Yes. **J.B. Hunt** was way oversold in our opinion because it was exposed to the economy. However, if you look back at their historical track record and you look at what they've been able to do, it represents just an excellent opportunity to jump into an industry-leading business while the short term was impacted by this shutdown. It has ended up being a very good entry point into a great business that we think will do quite well, so it is a very similar thesis to **Stryker**.

We did look at other businesses that were maybe shut down over the short run that we didn't see coming back as quickly, such as a casino company, airline, or one of the cruise lines or something like that. We thought that this business may struggle for a little bit longer, and it may take people a little bit longer to get back to flying or taking a cruise. We felt people will ship goods and services too through **Amazon**, etc. Buying **J.B. Hunt** was just a good opportunity.

TWST: You talked a little bit about trimming back, particularly on Abiomed or Pool. Why make those particular decisions to trim back there?

Mr. Villere: Abiomed has had an incredible recovery. It's still up about 42% year to date. Similar to **Stryker**, they have a device called the Impella, which unbelievably was considered nonessential. In interviewing different doctors, if someone had a leaky valve or

1-Year Daily Chart of Stryker Corporation

Chart provided by www.BigCharts.com

considering the current environment, as they thrive with people doing more remotely on the internet. They own the website ehealth.com that was essentially founded about 20 years ago to make people buy Medicare insurance. It is a very simple story. They are essentially trying to make it as easy for seniors to buy Medicare insurance online as it is to buy a plane ticket on websites like **Expedia** (NASDAQ:EXPE) or Travelocity. The competition is literally medicare.gov and healthcare.gov; websites that are extremely clunky and not easy to use.

So the backdrop is, there are about 10,500 people every single day who are turning 65 and eligible to buy Medicare insurance. **eHealth** is just hoping to go from 1% share of the market up to 4% to be very successful. When we bought the stock, there was a little bit of an opportunity because there was a short report written about how these guys calculate churn or the rate at which customers leave, as this is an important component of the lifetime value of their contracts and how they recognize revenue. It is literally done based on an accounting rule called ASC 606, which is the standard way that companies like this account for it.

1-Year Daily Chart of Pool Corporation

Chart provided by www.BigCharts.com

for coronavirus vaccine, they sell something called Captisol, which is a drug delivery technology. They are selling it to **Gilead** (NASDAQ:GILD) for its product called Remdesivir. We don't think it is a COVID-19 play, but this just gives one more tailwind to the business.

We spoke to management just last week, and they are excited. They just invested another $60 million to produce more Captisol from 60 metric tons to about 500 metric tons to meet their demand. So we think this one has a great backdrop and should do well in any environment but will do extremely well in this current COVID-19 environment.

TWST: What holding might be a true example of your contrarian perspectives?

Mr. Villere: A lot of these businesses, I would say, are ones that the world was selling. We were able to step up and buy as they sold off. One particular business is a company called **Ebix** (NASDAQ:EBIX), which is an Indian company. It is extremely out of favor right now. We believe that we are quite contrarian in buying it, and we think a lot of money will be made over the long run as people just kind of sold off some of these things that are a bit riskier.

We sat down with management and went through each of their business lines and scrubbed each one to see what worst-case scenarios look like as far as EBITDA, etc. We feel like the market has discounted it way too much. We think that it is going to be a big outperformer in the fund over the next 12 months.

TWST: Can you give us a little bit more perspective on why this is the perception of this company? What is management doing to manage the company well?

Mr. Villere: Yes. There is not a lot of information. I don't think people have spent the time that we have with the management team talking to

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What I think will make that go away is that another company called **SelectQuote** (NYSE:SLQT) just went public. It is another high-quality business, and it uses the exact same accounting standards because that is what is required. We think that the short story will go away and that the stock has potential to trade at about 6.4 times revenue of about $787 million for 2021. The stock could go to $200 from where it is today at just $106. It represents a great opportunity.

TWST: What about Ligand Pharmaceuticals?

Mr. Villere: Ligand (NASDAQ:LGND) is basically a safer way to play the biotech industry, in our opinion. It has a drug delivery technology that helps a lot of their biotech partners get through clinical trials and beyond. **Ligand** sold a business called Promacta back in March of 2019 for a song, about $827 million. They got a very full price and frankly couldn't really turn it down, but they had to cut their revenue outlook in half because they were no longer collecting that royalty income that it was used to.

The stock was as high as $280, and investors just kind of threw it away. We were able to buy some in the $80 range. Now, they have $700 million in cash, and they are going to continue to be acquisitive. Then, in this current COVID-19 environment, as everybody's looking

them literally from India during this downturn. They have a couple of different businesses, and the insurance business, which is about 45% of its revenue, should actually be quite solid considering it is 85% recurring and very sticky.

In fact, we spoke to Robin Raina, the CEO, and he looked at different times when there were downturns and different stress tests. He came back thinking that the business is going to be extremely sticky. We felt good about it. There is another part of their business called EbixCash that we think is also going to do just fine in the current environment.

When you scrub it down to see where EBITDA could end up, it looked like they could still have decent numbers. Wall Street just hasn't given these guys any credit; they are just looking at it as an Indian payments company. There is a void of information. Not many Wall Street analysts follow it. The inefficiency is where there is probably going to be an opportunity for growth.

TWST: Do they primarily sell into India? Also, what originally put them on your radar screen?

Mr. Villere: Yes. It is the ability of this company to make acquisitions. It seems like every time they do, they just tack on more and more revenue and EBITDA to the business. It was very undervalued. When we looked at it, it still goes largely unnoticed and is undervalued by

Wall Street. It is something that attracts us. It certainly is contrarian.

People are probably trying to rush away from things that have a lot of exposure to India or China right now. That is where the opportunity is because it's just, we think, way overdone. In fact, they are very disciplined and had an acquisition opportunity of a company called **Yatra** (NASDAQ:YTRA) and just walked away from it. Just because they have the ability to do it, they are never going to overpay for anything. That discipline gives us a lot of faith in management to continue to make money for shareholders.

TWST: And are they primarily selling to India? Are they global?

Mr. Villere: They have businesses including insurance and an Indian travel business. Yes, it is mostly Indian-oriented. A lot of the insurance business is global in nature.

TWST: What else did you want to point out about the fund and how you are managing it at this volatile time?

Mr. Villere: The big trends in the market right now are for investors to just index their money or just to buy the largest companies on earth, as in the **Amazons** of the world that are the most popular stocks that I can think of. What we're trying to do is find the next **Amazon**, as in maybe a company that flies under the radar of most investors, but it has the ability to outperform.

If you think about **Amazon**, it is difficult to double its market cap from here just based on the law of large numbers. What else will they need to do versus some of these smaller businesses that might be just $1 billion or $2 billion in market cap. To get those to go from $3 billion to $4 billion market cap is a lot more achievable and possible. We think they can certainly double their businesses over a shorter time frame relative to something like an **Amazon** or some of these stocks that have gotten, I'd call it, priced for perfection.

No doubt they are great businesses. We all use their products, but the stock certainly reflects that. That is the opportunity in our fund, and that is to buy a collection of companies that could be tomorrow's companies, not yesterday's companies.

TWST: To be a little devil's advocate for a second, you are a small family-owned business. What if somebody were to say, "Well, you don't have enough outside perspective or use enough outside resources"? What would you say to that?

Mr. Villere: We probably deal with over 35 different research firms in terms of just checking our ideas out and generating ideas. We use a lot of third parties to help us get on conference calls of industry experts or anything else to make sure that we have the most current information on everything that we're investing in. We also take a lot of pride in having our name on the door.

As a portfolio manager, I've been doing this for 20 years, and I think I've got another 40 to go. Some people may be in a portfolio manager position at one firm and may be looking to do that for three or four years and advance and move on to another firm and change paths. I think it is very rare that you get four portfolio managers who have been doing this over probably a combined 120 years. Nobody is looking to move, so you get that longevity of process and everything else that we have been doing since, frankly, 1911 here at our firm.

TWST: How would you distinguish this Balanced Fund from another balanced fund as a potential investor reviews them to decide where to put his or her money? Is one of the distinctions simply that you are a little bit more aggressive because you are looking at small- to mid-cap stocks much of the time and a concentrated portfolio of 20 to 30 holdings? Would that be one important distinction? Can you enumerate some of the other distinctions?

Mr. Villere: Yes. The biggest distinction is going to be the actual equity holdings. We will be a little bit more aggressive. I can name the top five positions in almost every balanced fund, which is going to be your typical large-cap value dividend companies. I would bet **Microsoft** (NASDAQ:MSFT), **AT&T** (NYSE:T) and **JPMorgan** (NYSE:JPM) would all be in there. That is what you get.

With us, most people will not have even heard of many of the companies that are in our portfolio because we're looking for tomorrow's companies that may have the opportunity to outperform over the long run. We are a little bit more nimble, in that we tend to go from 70% invested in stocks down to 62% invested in stocks. When we see things that are overvalued, we never fall in love with the stock, as we believe it will not love you back. We will trim out of those companies that have gotten a little bit ahead of themselves, so we want to be a little bit more nimble would be the best way to put it.

TWST: Is there anything else you wanted to add before we end?

Mr. Villere: As far as telling investors what to do, people should be patient. They should find things that are typically undervalued and try to buy those with a margin of safety, where if things go wrong, then maybe they won't fall as far as more popular stocks that can be a little bit overvalued and struggle. We are extremely patient. We don't mind being underinvested for some time frame until we see the right companies to invest in. When we do, we can do it quickly.

I've been on various trips with different research analysts on the buy side, and they love an idea and I love an idea, yet they have to pitch it to a portfolio manager who has to go through a committee, and then they have to go through more red tape to get an idea into the portfolio. When we have conviction, and we all agree that it checks all of our boxes, we bring it through our entire process and make a decision quickly and take a pretty good position in a brief period of time. That is another advantage.

TWST: Thank you. (KJL)

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Top ten holdings for the Villere Balanced Fund can be found here.
Fund holdings and sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security.

The Villere Balanced Fund's expense ratio is 1.00%

Earnings growth is not a measure of the Fund's future performance.

Mutual fund investing involves risk. Principal loss is possible. Investments in smaller and medium sized companies involve additional risks such as limited liquidity and greater volatility. 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 non-rated securities present a great risk of loss to principal and interest than higher rated securities.

Diversification does not assure a profit or protect against loss in a declining market.

While the fund is no-load, management fees and other expenses still apply. Please refer to the summary prospectus or prospectus for further details.

The Fund's investment objectives, risks, charges, expenses and other information are described in the prospectus or summary prospectus, which must be read and considered carefully before investing. You may download the prospectus at www.villere.com or obtain a hard copy by calling 866-209-1129.

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