

# Market Review: Stocks surged on vaccine news and the Fed’s continued support

2020 was a most remarkable year for the stock market. After the COVID-19 pandemic triggered the worst crash in a generation, unprecedented monetary and fiscal stimulus and the vaccine breakthrough sent stocks rallying across the board to record highs by the end of the year.

The S&P 500 Index gained 12.2% in the fourth quarter and 18.4% for the year. The Russell 2000 Index, which tracks stock performance of small companies, rose 31.4% and 20.0%, respectively. The yield on the U.S. 10-year Treasury was 0.9% at the end of the quarter, down from 1.9% at the start of the year—effectively an increase in price of 10%.

Technology companies were the clear winners in 2020 as the pandemic sped up digitalization, video-conferencing, and

online shopping. Since the news of the vaccines came out in November, small-cap stocks had an incredible run as investors believe that vaccines will help the broader economy recover. The small stock Russell 2000 index had its best quarter ever, ending the year up more than 100% from its March lows. With no viable alternative to stocks, investors turned to areas of the market in the fourth quarter that had lagged during the market rally. As we have noted previously, we believed smaller stocks would start to outperform larger stocks as they had underperformed large caps, and as small-cap stocks also historically perform better during an economic recovery.

The market also rallied on the election outcome as Wall Street tends to prefer a gridlock between Republicans and Democrats. While the Georgia Senate battle could upset the market due to potential tax increases, having the Presidential election behind us was another uncertainty cleared.

“Don’t fall in love  
with a stock, it won’t  
love you back.”

—George Young

## VILLERE BALANCED FUND PERFORMANCE (VILLX)

INCEPTION 9/30/1999\*

12/31/2020	Total Return			Average Annual Total Return				Cumulative
	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	*Since Inception	*Since Inception
Villere Balanced Fund	16.34%	10.99%	10.99%	8.34%	8.83%	8.19%	7.85%	397.96%
Lipper Balanced Funds Index	9.58%	13.43%	13.43%	8.94%	9.60%	8.28%	6.07%	249.78%
S&P 500 TR	12.15%	18.40%	18.40%	14.18%	15.22%	13.88%	7.23%	340.97%
Bloomberg Barclays Intermediate Government/Credit Index	0.48%	6.43%	6.43%	4.67%	3.64%	3.11%	4.52%	155.87%

Expense Ratio: 0.99%

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](http://www.villere.com).

## Portfolio Review—Asset Allocation

The Fund rose 16.34% during the quarter, while the Lipper Balanced Funds Index gained 9.58% and the S&P 500 Index increased 12.15%. Stock selection and the Fund's focus on small- and mid-cap stocks were key drivers of the Fund outperformance of its Balanced Fund peers, which tend to hold large-cap stocks.

At the end of December, the Fund's asset allocation was 68.6% in stocks, 17.9% in bonds, and 13.5% in cash.

The Fed's monetary policy should remain very stimulative as long as inflation is low, which likely means no increase in interest rates until late 2022 at the earliest. 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, and the Fund is positioned just below the low end of that range.

We do not believe the bond market is attractive with yields artificially depressed. In this environment, any return is likely to come from the interest income generated. Since we mainly use the fixed income component for potential income and stability, we have kept duration short in an effort to reduce risk and are not reaching for lower credit ratings in search of yield.

We believe dividend stocks are a better option for income-oriented investors. While stocks are more volatile, dividends have historically increased over time. We look for companies that have a strong history of paying and growing dividends based on increasing earnings. On the other hand, the yield from fixed income is just that; "fixed" and can get eaten up by inflation.

We held more cash than normal at the end of the quarter after trimming and selling some holdings as the stock market reached record levels and valuations were high.

## Portfolio Review—Equities

ON Semiconductors Corp., Euronet Worldwide, Inc., and First Hawaiian, Inc. all had an outstanding quarter and were the top contributors to the Fund's performance. All equity holdings in the portfolio, except for eHealth, Inc., generated a positive return during the fourth quarter. The portfolio allocation to cash and fixed income detracted from the relative performance as equities turned in a stellar quarter.

During the quarter, we purchased Palomar Holdings, Inc. Palomar is a fast-growing, small-cap specialty insurer that offers protection for properties damaged from earthquake, wind, and flood. We believe that Palomar uses technology more efficiently than its competitors, and the company has a large exposure to the California earthquake market, where it uses more granular data to more accurately price policies and risk.

We added to our position in Abiomed, Inc. and trimmed Steris, PLC. We sold both Howard Hughes, Corp. and LKQ, Corp. entirely.

### 4TH QUARTER TOP CONTRIBUTORS

#### ON Semiconductors Corp.

ON Semiconductor manufactures and sells semiconductors for various devices worldwide. The stock gained 50.9% in the fourth quarter. Semiconductors have been important drivers of the overall growth in technology and ON has benefitted from the continued stay-at-home trends during the COVID-19 pandemic. We believe that ON is well-positioned to benefit from the massive 5G cellular buildout over the next several years, as well as the trend to increase technology in automobiles, including growth in electric and autonomous vehicles. The 5G wireless transition should continue to lift chipmakers involved in cellular infrastructure and smartphones, and ON handles power in wireless base stations.

#### Euronet Worldwide, Inc.

Euronet Worldwide is an industry leader in providing secure electronic financial transaction solutions. The company operates one of the largest independent ATM networks in Europe, and is the world's largest payment network for prepaid mobile top-up and the third-largest global money transfer company. The stock rose 59.0% in the fourth quarter, aided by a better outlook as a result of the vaccine news and the expectation of more travel and tourism later in 2021.

#### First Hawaiian, Inc.

First Hawaiian is a bank holding company headquartered in Honolulu with the largest banking franchise in Hawaii. First Hawaiian was negatively affected by the halt in tourism during the COVID-19 pandemic and the banking industry was hard-hit by the heightened credit risk. The stock rebounded 64.9% in the fourth quarter, fueled by several positive developments, including the progress on the COVID-19 vaccine. We believe that strong military spending in Hawaii, an increase in tourism, and the geographically isolated loan portfolio provide an investment opportunity in First Hawaiian. It also has an experienced management team, strong business clientele, and is paying a very attractive dividend.

### 4TH 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. eHealth fell 10.6% in the fourth quarter despite reporting earnings above Wall Street earnings expectations. We believe that eHealth should benefit from investments in Medicare-related marketing initiatives and the expansion of online sales.

## Villere Balanced Fund—Top Contributions &amp; Detractors

Top Performers 9/30/2020–12/31/2020	Average Portfolio Weight (%)	Return (%)
ON Semiconductor Corp.	5.43	50.90
Euronet Worldwide, Inc.	3.62	59.08
First Hawaiian, Inc.	3.22	64.93
Ebix, Inc.	2.45	84.73
LKQ Corp.	2.67	28.60

Bottom Performers 9/30/2020–12/31/2020	Average Portfolio Weight (%)	Return (%)
eHealth, Inc.	3.46	-10.62
Phillips 66 4.3% 4/1/2022	5.46	-1.68
Flowers Foods, Inc. 4.375% 4/1/2022	3.34	-1.05
Equifax Inc. 3.3% 12/15/2022	2.73	-0.99
Walmart Inc. 3.4% 6/26/2023	0.36	-1.36

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

## Outlook and Strategy

Between the already-strong recovery and massive vaccine spike, the overall stock market seems somewhat overextended. There are signs of potential exuberance: historically elevated stock valuation metrics, record inflows into exchange-traded funds with high concentration in popular stocks, very high levels of retail investors borrowing money to trade stocks, and excessive investor optimism reaching a “euphoric” level. The large technology stocks make up 22% of the S&P 500, pushing up valuations and making the index expensive.

While we now have vaccines, the coronavirus is spreading at a rapid pace, which could result in further partial shutdowns and months of social distancing and precautionary guidelines. Rollout of the vaccines will likely be slower than expected due to the difficulty of distribution and prioritization, and there is also a risk that people may be more resistant to taking the vaccine than expected. This is a near-term risk to the markets, as are stretched stock valuations. We should see a broader, improving economic recovery as vaccines become more available; however, corporate earnings and fundamentals need to improve to validate lofty stock prices.

The stock market seems to look past the short-term turmoil, knowing that there is light at the end of the tunnel, but the disconnect between Wall Street and Main Street has continued much longer than people expected back in the summer. The market has priced in a lot of good news, however we believe that more gains are possible by the end of 2021. The Federal Reserve is committed to keeping interest rates low and continuing its bond-buying program to support the economy, and once we get through this challenging time, pent-up consumer demand should boost economic growth and corporate profits.

We believe, tech high-flyers are still “priced for perfection” and extremely risky at these levels. While small caps had a good year in 2020, we believe they can go higher and offer better value than large caps. Many large companies need to “buy growth” by acquiring small- and mid-sized companies. It is a stock picker’s market.

Our focus continues to be on individual companies. Given the prospects of more uncertainty and a recovery path that will likely be uneven and varied across industries, we will continue to run our selective, disciplined investment process. We invest in high quality small- and medium-sized companies with growing profits, reasonable valuations, and strong outlooks.

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](http://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 12/31/2020 were:****VILLERE BALANCED FUND**

ON Semiconductor, Inc.	(ON)	6.1%
Visa, Inc.	(V)	5.8%
Caesars Entertainment, Inc.	(CZR)	5.7%
Pool Corp.	(POOL)	5.2%
Euronet Worldwide	(EFT)	4.3%
Kearney Financial Corp.	(KRN)	3.9%
Stryker Corp.	(SYK)	3.8%
First Hawaiian, Inc.	(FHB)	3.7%
Teleflex, Inc.	(TFX)	3.3%
Progressive Corp.	(PGR)	3.2%

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.

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.

**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.