Market Review: Small-cap stocks continued the sharp rally in 2021

It was another strong quarter for stocks with small caps leading the way. It has now been just over a year since the COVID-19 stock market crash, and the bear market last year was the shortest in the history of market crashes. The stock market has not only recovered, but surged to new records, ending the first quarter at an all-time high.

The S&P 500 Index gained 6.17% in the first quarter and the Russell 2000 Index, which tracks stock performance of small companies, rose 12.70%. It was a volatile quarter for stocks, for example, the technology-heavy Nasdaq Composite Index was down 12% in the middle of the quarter before bouncing back sharply.

Popular equities such as "Big Tech" stocks and Tesla underperformed as investors continued to rotate into small-cap, cyclical, and value stocks, and sectors such as energy, financials, and travel, that are poised to benefit from the economic rebound.

The Federal Reserve (the "Fed") remained supportive of the markets by keeping interest rates near zero and continuing its $120 billion per month bond purchases. On the fiscal side, we saw one of the largest economic stimulus packages in U.S. history. Also helping stocks were rising estimates for U.S. corporate profits this year, following surprisingly strong fourth-quarter earnings and growing optimism about the economic recovery as COVID-19 vaccines roll out.

With commission-free trading on easy-to-use apps such as Robinhood, retail investors continued to be one of the key drivers of the stock market rally as many of them invested their stimulus checks in stocks. "There-is-no-alternative" (to stocks) and "fear-of-missing-out" market psychology also continued to play an important role in market dynamics.

Low interest rates and excess liquidity in the system have led to aggressive risk taking as investor searched for additional return. News headlines included the surge in popularity of cryptocurrencies like bitcoin, "blank check" special purpose acquisition companies (SPACs), and non-fungible tokens (NFTs), as well as the GameStop and other "meme" stocks trading frenzy, and the blow-up of Archegos Capital Management's large, overleveraged hedge fund.

Bond investors have been growing worried that all the stimulus and massive deficit spending could eventually hurt the economy in the form of faster inflation. The yield on the 10-year U.S. Treasury Note has climbed quickly in recent months, increasing from 0.93% to 1.74% in the first quarter. Bond yields have risen as investors are becoming increasingly bullish on the economy with the rollout of COVID-19 vaccines. The prospect for strong economic growth and increasing concerns over higher inflation have pushed down the prices for bonds, which move in the opposite direction from yields. The Bloomberg Barclays Intermediate Government/Credit Bond Index declined 1.86% during the quarter.

> **"I believe passive ETFs are yesterday's winners and we are now in a stock picker's market again."**
>
> —Sandy Villere III

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

3/31/2021	Total Return			Average Annual Total Return				Cumulative
	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	*Since Inception	*Since Inception
Villere Balanced Fund	3.38%	3.38%	41.36%	7.94%	8.77%	7.28%	7.92%	414.80%
Lipper Balanced Funds Index	5.39%	5.39%	37.31%	11.23%	10.47%	8.44%	6.26%	268.62%
S&P 500 TR	6.17%	6.17%	56.35%	16.78%	16.29%	13.91%	7.44%	368.20%
Bloomberg Barclays Intermediate Government/Credit Index	-1.86%	-1.86%	2.01%	4.36%	2.75%	2.88%	4.38%	151.11%

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.

Portfolio Review—Asset Allocation

The Fund rose 3.38% during the quarter, while the Lipper Balanced Funds Index gained 5.39% and the S&P 500 Index increased 6.17%. The Fund held more cash than normal during the quarter as the stock market reached record levels and valuations were high. However, any cash detracted from the relative performance as stocks performed well.

The asset allocation in the Fund was 71.6% in stocks, 18.8% in bonds, and 9.6% in cash at the end of March.

As mentioned, the 10-year Treasury yield increased from 0.93% at the beginning of the year to 1.74% at the end of the quarter. We still do not believe the bond market is attractive as yields are artificially depressed. In this environment, any return is likely to come from the interest income generated. 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. 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 generally more attractive than bonds. While stocks are more volatile, dividends have historically increased over time. On the other hand, the yield from fixed income is just that, "fixed," and can get eaten up by inflation.

Portfolio Review—Equities

Ligand Pharmaceutical, Inc., ON Semiconductors Corp., and Caesars Entertainment, Inc. all had a strong quarter and were the top contributors to the Fund's performance. Detractors from performance included Palomar Holdings, Inc., Ebix, Inc., and Pool Corp. The portfolio allocation to cash and fixed income detracted from the relative performance as equities had a good quarter.

During the quarter, we purchased Paya Holdings, Inc., a leading provider of integrated payment and commerce solutions that help customers accept and make payments, expedite receipt of money, and increase operating efficiencies. Paya serves the middle market, which is underserved at present. Paya's recent public offering provided cash to expand into the ACH market, which complements the card-based transaction business. ACH is a larger business with higher margins.

We also bought shares of media giant ViacomCBS on the last day of March. Late in the quarter, shares of ViacomCBS plummeted as hedge fund Archegos Capital Management and banks it worked with became forced sellers of the stock. We believe the intrinsic value of the company, which includes Paramount Studios, CBS, Nickelodeon, Comedy Central, and BET, is significantly higher than the current share price implies. In addition to the high-quality scripted content it produces, the company is also aggressive in its live television offerings—thus far this year, it has televised the Super Bowl, the Grammy Awards, and the NCAA March Madness basketball tournament. We believe that Paramount+, the company's paid streaming product, added nearly five million subscribers in the first quarter of this year.

We added to our position in Palomar Holdings, Inc. and Roper Technologies, Inc. on a pullback in those stocks, and trimmed ON Semiconductor Corp., Kearny Financial Corp., and Ebix, Inc.

1ST QUARTER TOP CONTRIBUTORS

Ligand Pharmaceuticals, Inc.

Ligand Pharmaceuticals is a biopharmaceutical company focused on developing or acquiring technologies that help partner pharmaceutical companies discover and develop medicines. Ligand reported earnings that significantly beat expectations and raised its previously announced guidance for sales and earnings for 2021. The stock rose 53.3% in the first quarter, in what was a very volatile quarter for the stock. The company has great products in the pipeline and partnerships in place, which we believe should provide opportunities for future revenue generation that could lead to meaningful upside potential for the company and stock.

ON Semiconductor Corp.

ON Semiconductor manufactures and sells semiconductors for various devices worldwide. The stock's strong performance continued in the first quarter with a gain of 27.1%, aided by quarterly results that exceeded expectations. Semiconductors have been important drivers of the overall growth in technology and ON Semiconductor has benefited from the continued stay-at-home trends during the COVID-19 pandemic. The global chip shortage also helped boost the stock price as demand spiked. We believe that ON Semiconductor is well-positioned to benefit from the massive 5G cellular buildout over the next several years, as well as benefiting from 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 makes chips that handle power in wireless base stations. We are also optimistic that ON's new CEO, Hassane El-Khoury, will be able to make ON more capital efficient.

Caesars Entertainment, Inc.

Caesars is now the largest casino-entertainment company in the U.S. and one of the world's most diversified casino entertainment providers. It operates primarily under the Caesars, Harrah's, Horseshoe, and Eldorado brand names. All of Caesar's casinos have reopened since the COVID-19 crisis. Caesars' stock gained 17.7% during the quarter, continuing the sharp rally from the March lows. The management team has a proven history of quickly deleveraging after acquisitions and exceeding lofty cost reduction expectations. These tight controls on expenses should help make the company's regional casinos more profitable and the shrinking marketing spend does not seem to affect demand. The explosive growth in U.S. sports betting is also providing momentum, and Caesars' purchase of William Hill makes them a top contender in online gaming. Municipalities are going to be very strapped for cash coming out of the pandemic and legalizing online sports gambling may be a way to bring in additional revenue, providing a potential opportunity for Caesars.

1ST QUARTER TOP DETRACTORS

Palomar Holdings, Inc.

Palomar is a fast-growing, small-cap specialty insurer that offers protection for properties at risk of earthquakes, wind, and flooding. The stock fell 24.5% in the first quarter as hurricane Zeta and storms in Texas resulted in higher expenses and underwriting losses. As mentioned, we added to our position in Palomar on the weakness in the stock price. 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.

Ebix, Inc.

Ebix is a provider of software and e-commerce solutions and services to the insurance, finance, and healthcare industries. Ebix was down 15.4% in the first quarter. The stock fell sharply in February when Ebix filed an 8-K announcing that its auditor RSM had resigned. Wall Street often assumes the worst, and we were able to get the CEO and CFO on a Zoom call very quickly. One of the main issues was how $30 million of cash should be classified; cash and equivalents, or other current assets. The $30 million was in a trust account and Ebix did consider it cash, but went ahead with the auditor to call it other current assets. We thought this was an overreaction. The other issue was around the strong growth from $36 to $130 million during the past three quarters in Ebix's prepaid/gift card business. The auditor claimed that Ebix did not show enough documentation for that growth, however, documentation for each transaction had been provided. We believe that shares will recover as the audit situation is resolved.

Pool Corp.

One of our long-term holdings is Pool Corp. It is the dominant distributor of products for swimming pools. During the pandemic, we have seen consumers spend heavily on their homes and other forms of recreation that do not necessarily involve significant social contact. Pool became a "stay-at-home COVID-19 stock" due to the incredible number of people investing in their homes. After a very strong rally, the stock declined 7.2% in the first quarter as investors shifted to stocks considered "reopening plays"—positioned to benefit once the economy reopens after the pandemic. However, we believe Pool will continue to enjoy not only the spike in swimming pool installations, but also the long-term maintenance spend (chemicals, replacement parts) for these new pools for years to come. About two-thirds of Pool's sales are repair and maintenance of swimming pool. We continue to like the growth profile and the competitive position that Pool enjoys.

Villere Balanced Fund—Top Contributions & Detractors

Top Performers 12/31/2020–3/31/2021	Average Portfolio Weight (%)	Return (%)
Ligand Pharmaceuticals Inc.	4.74	53.29
ON Semiconductor Corp.	4.08	27.13
Caesars Entertainment Inc.	6.32	17.75
First Hawaiian, Inc.	4.08	17.17
Kearny Financial Corp.	3.87	15.30

Bottom Performers 12/31/2020–3/31/2021	Average Portfolio Weight (%)	Return (%)
Palomar Holdings, Inc.	2.20	-24.54
Pool Corp.	4.78	-7.16
Ebix, Inc.	3.07	-15.40
Euronet Worldwide, Inc.	4.26	-4.57
Roper Technologies, Inc.	3.01	-6.32

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

Outlook and Strategy

We believe that a lot of good news is priced into the market as valuations are at historically elevated levels. The economy and financial markets appear to be pricing themselves for perfection, counting on rapid vaccinations and a surge in consumer spending this year that will boost the economy.

There have been record inflows into passive exchange-traded funds ("ETFs") with a high concentration in popular stocks and record levels of retail investors borrowing money to trade stocks. We believe that we are now in a stock picker's market. Rather than simply investing in the "market" via passive ETFs, it is important to carefully select individual stocks and avoid following the herd. Investors need to focus on the fundamentals of each business and companies with strong balance sheets and solid management teams that are positioned for growth as the economy reopens. While many areas of the market are very expensive, there are pockets of value. We are focusing on high-quality small- and medium-sized companies with growing profits, reasonable valuations, and strong outlooks, favoring value stocks over more expensive growth stocks. With that said, we can and do purchase shares in larger companies, like ViacomCBS, when attractive opportunities arise.

Fed chairman Jerome Powell has stated that the Fed is not concerned with higher inflation as it is targeting above 2% inflation and maximum employment. The Fed will no longer act preemptively based on forecasts and is planning to keep its policy of extremely easy monetary policy in place for the foreseeable future. However, a burst of new spending and economic growth coupled with the massive amount of fiscal stimulus in the system could lead to a spike in inflation. There is a risk that the Fed, despite its desire to be accommodative and boost employment, might have to pull back on the stimulus sooner than anticipated to cool the economy and keep inflation in check if it runs too hot.

As long as the Fed is accommodative and provides a "backstop" for the markets, we will continue to be constructive and cautiously optimistic about the outlook. With stock valuations at these levels, we are entering a period of time when there is more risk in the market, so we will continue to take a balanced approach to our holdings.

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 fund as of 3/31/2021 were:

VILLERE BALANCED FUND

Caesars Entertainment, Inc.	(CZR)	6.5%
Visa, Inc.	(V)	5.4%
Ligand Pharmaceuticals, Inc.	(LGND)	4.7%
Pool Corp.	(POOL)	4.6%
First Hawaiian, Inc.	(FHB)	4.1%
Euronet Worldwide	(EEFT)	4.0%
Stryker Corp.	(SYK)	3.7%
ON Semiconductor, Inc.	(ON)	3.5%
Kearny Financial Corp.	(KRNY)	3.4%
Teleflex, Inc.	(TFX)	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.

The Fund does not hold any shares of "Big Tech" companies, Tesla, or bitcoin.

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.

Cryptocurrency is a digital asset designed to work as a medium of exchange where individual coin ownership records are stored in a ledger existing in a form of computerized database using strong cryptography to secure transaction records, to control the creation of additional coins, and to verify the transfer of coin ownership.

SPACs are special purpose acquisition companies, essentially shell companies that raise money from investors through stock-market listings. Also known as "blank check companies".

Non-fungible token is a unit of data on a digital ledger called a blockchain, where each NFT can represent a unique digital item, and thus they are not interchangeable. NFTs can represent digital files such as art, audio, videos, items in video games and other forms of creative work.

Meme stock is a stock that has seen an increase in volume not because of the company's performance, but rather because of hype on social media and online forums like Reddit. For this reason, these stocks often become overvalued, seeing drastic price increases in just a short amount of time.

Quasar Distributors, LLC is not affiliated with Robinhood.

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 Funds 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 Index 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.

NASDAQ Composite Index is a market value-weighted index of all domestic and international common stocks listed on the NASDAQ stock market.

It is not possible to invest directly in an index.

The Villere Funds are distributed by Quasar Distributors, LLC.