William Blair

Fund Manager Commentary
William Blair SICAV US Small-Mid Cap Growth Fund

Market Summary

U.S. equities rose meaningfully in the first half of 2017, with particular strength among growth style indices. Robust first quarter returns were driven by improving economic data, solid corporate earnings growth and a continuation of late 2016 optimism for the pro-U.S. growth initiatives of the new administration. The tenor of the market shifted in the latter part of the first quarter, in part due to the President and Republican Party's failure to quickly overhaul the U.S. health system, as investors became more cautious regarding the likely success of the administration's pro-growth initiatives.

Despite that shift, U.S. growth equity indices continued their upward trajectories during the second quarter. Underpinning the market's second quarter advance was strong corporate earnings growth. As a barometer, corporations in the S&P 500 Index reported first quarter earnings growth of 14% as compared to the same period in the prior year, the fastest pace of growth since 2011. However, as expectations for an acceleration in U.S. economic growth tempered, 10 year U.S. Treasury yields declined. Despite muted inflation and wage growth, the Federal Reserve enacted its second rate increase of the year in June, compelled by tight labor markets as unemployment levels fell to 4.3% in May. In the final week of the quarter, a sense of caution crept into the market as the European Central Bank (ECB) signaled a forthcoming reduction in monetary stimulus. As investors digested the potential shift in global central banks' monetary policies, the market retreated, paring back some of the strong gains achieved in the quarter overall.

Fund Review & Outlook

The William Blair SICAV Small-Mid Cap Growth Fund outperformed its benchmark, the Russell 2500 Growth Index, during the second quarter. Strong stock selection and a modest style benefit drove outperformance in the second quarter. Stock selection in Health Care was particularly strong including positions in Exact Sciences, Akorn and Veeva Systems. Exact Sciences outperformed primarily due to continued business strength as the validation of its colorectal screening test Cologuard is playing out in the medical community. Other top contributors included Information Technology holdings CoStar Group and Guidewire Software. Shares of CoStar Group advanced after the company announced sales and earnings that exceeded expectations and raised 2017 guidance. From a style perspective, our higher growth bias was a tailwind during the quarter as higher growth stocks within the Russell 2500 Growth benchmark outperformed. Top detractors in the quarter included Tractor Supply (Consumer Discretionary), Glaukos (Health Care), Middleby Corporation (Industrials), Akamai Technologies (Information Technology) and Michaels Companies (Consumer Discretionary). Tractor Supply underperformed after the company lowered forward-looking guidance for 2017 amid a slow start to the year. Conversely, Glaukos reported strong growth during the quarter, but investors broadly expected faster growth and the stock underperformed.

Looking forward, we acknowledge the diverging fiscal and monetary forces in the U.S. As the current

Top 10 Holdings as of 30.06.2017

Company Name	***% of Fund***
CoStar Group, Inc.	2.8%
Ligand Pharmaceuticals Incorporated	2.8%
Copart, Inc.	2.6%
BWX Technologies, Inc.	2.5%
Six Flags Entertainment Corporation	2.4%
Guidewire Software, Inc.	2.4%
j2 Global, Inc.	2.2%
SBA Communications Corporation	2.2%
Old Dominion Freight Line, Inc.	2.1%
Ball Corporation	2.1%
Total of Top 10	**24.1%**

administration works to implement business-friendly legislation such as tax reform and infrastructure spending, the Federal Reserve has embarked on a path toward policy normalization after an extended period of easing. With better global economic stability, other central banks, namely the ECB and People's Bank of China (PBOC), have also signaled a shift toward less stimulative monetary policy. The pace at which these various groups enact policy change should inform the trajectory of the U.S. economy as well as the U.S. equity market. Further, as a result of being in the latter stages of the economic cycle and a prolonged low interest rate environment, there are likely excesses (e.g. high and growing corporate debt issuance) building in the economy that will eventually need to unwind.

We are mindful of these issues and as bottom-up, fundamental stock pickers, we consider them on a stock by stock basis. Our focus remains on identifying businesses with idiosyncratic growth drivers that should power through a variety of economic or market scenarios, whose stocks present attractive risk/reward opportunities. We believe that if we can identify and invest in high quality companies with more durable growth opportunities than the market expects, the stocks of those companies should be rewarded.

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