William Blair

2Q 2017

Fund Manager Commentary
William Blair SICAV Dynamic Diversified Allocation Fund

Performance Summary

The Dynamic Diversified Allocation strategy completed the quarter with positive performance. Market strategy and security selection were positive during the quarter, while currency strategy was negative. Our market strategy was particularly bolstered by long exposure to European and emerging equities. Fixed income positioning was positive, with long exposure to credit and U.S. rates adding value. Our currency positioning was negative, largely driven by short exposures in developed currencies such as the euro, Swiss franc, and New Zealand dollar. Security Selection was positive during the quarter, with positive performance from International Leaders and U.S. SMID Growth.

Fund Positioning

We now feel less compelled to maintain our strategies as de-risked as they previously were, in respect of opportunities that have been affected by shorter-term macro-thematic and geopolitical headwinds. Many recent moves in our strategy reflect reducing safe-haven exposures and buying into what we perceive are highly compensated opportunities, moving us closer to exposures warranted by fundamental valuation. We have also taken advantage of the low price of options (a by-product of low volatility) to re-engage some downside protection within our market exposures.

Market strategy remains long of equities, with effective exposure decreasing slightly from +35% at the beginning of the quarter to +31% at the end of the quarter. Long exposure is mostly within Europe, U.S., and emerging equities. Market strategy is moderately long of fixed income with a net exposure of +18%, an increase from 17% at the end of last quarter.

Within currencies, strategy remains broadly long of emerging currencies and short of developed currencies, in line with fundamental valuation. Our long positions remain in emerging currencies such as the Mexican peso, Philippine peso, and Indian rupee with our largest short positions in the Swiss franc, euro, and Thai baht. During the quarter we increased the size of the exposures across a number of currencies and, therefore, slightly increased risk within our currency strategy.

Fund Exposures (%) as of 30.06.2017

Global Equity	**31.2**
Europe (ex-U.K.)	13.0
U.K.	5.3
Asia Developed	-0.3
U.S.	5.0
Canada	-2.2
Emerging	10.4
Global Fixed Income	**34.6**
U.S. Treasury and Credit (10-Year)*	10.1
Non-U.S. Developed (10-Year)	3.6
Emerging	3.9
Unencumbered[1]	**27.6**
Other[2]	**23.6**
Collateral	4.2
Synthetic Offset	19.4
TOTAL MARKET ALLOCATION	**100.0**
Active Currency	**USD Based**
Euro (EUR)	-5.8
Swiss Franc (CHF)	-5.8
Great Britain Pound (GBP)	3.6
Other Europe	-1.1
Australia Dollar (AUD)	-2.9
New Zealand Dollar (NZD)	-5.1
U.S. Dollar (USD)	-3.8
Canada Dollar (CAD)	-2.2
Other Americas	8.7
Japan Yen (JPY)	-2.5
China Yuan (CNY)	4.7
Asia (Excluding JPY and CNY)**	6.4
Other	5.8
Net Currency	**0.0**

Fund Review and Outlook

Equities around the world generally rallied again in the second quarter, with riskier emerging markets beating developed markets in a repeat of the first quarter. Within developed markets, Japan outperformed Europe and the United States, aided by a weaker yen. U.S. 10-year bond yields declined, while European government bonds were broadly stable and Japanese bond yields remained marginally above zero—in line with the Bank of Japan's target as a part of its policy program. The U.S. dollar fell against most developed world currencies apart from the Japanese yen. Emerging market currencies were mixed; recoveries in the Mexican peso and Chinese yuan were balanced by weakness in the Philippine peso and Colombian peso, while the Indian rupee performed in line with the U.S. dollar. There was not a strong link between commodity-sensitive currencies and falling energy prices; some currencies weakened while some strengthened. Market volatility remained unusually low.

The global growth environment was generally upbeat with most data meeting or beating expectations until late in the quarter. The interest rate increase by the U.S. Federal Reserve was widely expected and did not derail overall risk-seeking sentiment, while other major central banks opted to remain accommodative.

With respect to macro-thematic influences, Energy and Populism remained largely in focus. Oil prices (which are in a range we broadly consider to be bounded by $40 and $55 per barrel) weakened, falling from the upper end to the lower end of this range. Our portfolios are positively sensitive to energy prices, mostly because prior years of sustained energy and commodity weakness have produced significant undervaluations in sectors, countries, and currencies that are positively exposed. We remain skeptical of material upside for oil prices beyond the recent range or downside below the bottom of it. Accordingly, we acted to modestly increase the sensitivity of strategy to this theme as prices weakened, achieving this by buying Canadian dollars (reducing our short) and selling euros. This currency pair is significantly correlated with oil, though the exchange rate is approximately fairly valued. This shift in exposure reverses part of a change we made in 2016—when we acted to expressly reduce the portfolio's beta to Energy. Recent price behavior has corroborated the notion that OPEC has less of an overt influence on the price of oil than it has in the past. And if the price of oil were to rise, significant supply could be added to the market very quickly via U.S. shale production. Together, these influences help to create the range in which we see oil prices residing in the near term.

Populism—the other macro theme that has been highly influential during the last two years—h as abated somewhat in 2017. We believe that positive surprises in economic growth have played a major part in this. Prominent signs that the populist wave has been fading include the election outcomes in both the Netherlands and France, in which anti-euro, anti-immigration, and anti-trade candidates fared worse than earlier indications and more centrist leaders rose to victory. This led us to restore equity exposure in France and Italy, which we had previously reduced due to the potentially adverse implications of anti-euro populist political success on these markets. We also offset these purchases with sales of less attractive markets and made a similar move into Italian and French government bonds, offset by selling German bunds.

Another considerable development in Europe involved Prime Minister Theresa May's calling of an early general election shortly after formally initiating notice to the European Union of the country's intention to leave. The election resulted in an unexpectedly poor electoral performance for the ruling U.K. Conservative Party, whose support collapsed after an early lead in polls. Prime Minister May's earlier move to adopt a "hard" stance toward Brexit now appears to have been a jump in the opposite direction to which voter opinions have drifted, as support in pro-EU voting constituencies swung more sharply away from the government. The decision to leave the EU is unlikely to be reversed going forward, but the government—still led by the Conservative Party albeit in a much weaker position—might have to "soften" its position to maintain sufficient support. In addition, from a game theater perspective, the EU's bargaining position has strengthened as the

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French and Dutch election outcomes substantially reduced disunity within the EU's own ranks relative to alternative outcomes, while the United Kingdom's power has diminished. Despite the political instability now likely to plague U.K. domestic politics, we do not view the outcome as negative for U.K. equities or the British pound (both of which are still fundamentally attractive) because a "softer" Brexit prospect given the stronger EU position is a somewhat less adverse environment for both the equity market and the currency. In addition, the likelihood of Scottish independence from the United Kingdom has dropped considerably as the Scottish National Party lost many parliamentary seats in the U.K. election.

It is still unlikely that the populism theme will vanish; in fact, it may reassert itself looking forward. The conditions that gave rise to it (slow growth, little or no income gains at the bottom end of the scale, prolonged austerity in many countries) have themselves not gone away. Recently there has been some relief in the form of a period of faster growth around the world, and a lessening of fiscal austerity in some countries is likely, but as we noted in our medium- and long-term outlook on growth (published in 2015), the world faces a prolonged period of slow growth, of which the current relative buoyancy is not likely to signal the end. For the time being, however, we believe the appropriate strategy response continues to be to re-risk exposures into attractive valuation opportunities that had previously been held back by macro-thematic or geopolitical downside risk concerns.

Our analysis and its conclusions—that several of the headwinds that weighed against attractive investment opportunities (by increasing risk and adversely affecting expected compensation) have recently faded—are consistent with more subdued volatility in markets and currencies across our investment universe. Notwithstanding this, our forward-looking risk models do not assume that the very low levels of volatility that have been realized in market and currency prices during the quarter (and in recent quarters) are sustainable for the longer term. When realized risk levels get very low, it is appropriate to be concerned about widespread complacency among participants and, in turn, the vulnerability of markets to surprises. Because we conclude that the underlying near-term macro/geopolitical risks are in abeyance, we have not been deterred by this concern from re-risking our strategy closer to exposures warranted by fundamentals alone. We have, however, taken advantage of the low price of options (a by-product of low volatility) to re-engage some downside protection within our market exposures.

It is our view that the challenge of navigating these risks continues to be the most significant shift in investment landscape to have occurred in the last decade and our investment process, dialogue, and decision making is well equipped to meet the challenges we now face. We remain vigilant as we assess new and relevant information to capture future investment opportunities in a timely manner and will continue balancing the relationship between risk taken and compensation expected.

FOOTNOTES TO FUND EXPOSURE TABLE

***Credit Detail**	
European Investment Grade Spread	3.2
U.S. Investment Grade Spread	5.5
U.S. High Yield Spread	0.8
****Select Exposures**	
India Rupee	5.1
Philippine Peso	5.1
Singapore Dollar	4.7

[1]Unencumbered cash is residual cash and equivalents.
[2]Collateral is cash and cash-like instruments (e.g., U.S. Treasuries) that are held to secure a derivative exposure. Synthetic Offset is an accounting offset associated with the use of derivative contracts, which provide economic exposure without an initial outlay of cash.

Fund exposures are as of 30 June 2017.

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relation to specific investments and you should review the risk factors very carefully before investing. Intended risk profile of the Fund may change overtime. The Fund is designed for long-term investors. For the most current month-end performance information, please visit our web site at SICAV.williamblair.com.

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