William Blair

3Q 2017

Fund Manager Commentary
William Blair SICAV Emerging Markets Growth Fund

Fund Performance & Positioning

The William Blair SICAV Emerging Markets Growth Fund outperformed its benchmark, the MSCI Emerging Markets IMI Index (net), during the third quarter. Outperformance versus the Index was driven by positive stock selection across most sectors, led by Financials and Consumer Discretionary. Within Financials, bank and insurance holdings were leading contributors. India-based Yes Bank's share price was supported by consensus-beating quarterly financial results that demonstrated solid loan growth (+32% Y/Y) and margin expansion. China's Ping An Insurance also benefited from a positive earnings surprise, highlighted by 46% growth in the value of new life business, which significantly outpaced consensus expectations of 35%-40% growth. Management's decision to increase the dividend payout ratio from 9% to 21% also bolstered investor confidence. Within the Discretionary sector, Chinese tutoring services company TAL Education was a notable contributor, driven by strong operating trends. The company reported fiscal Q1 sales growth of 65% Y/Y driven by robust enrollment growth.

Partially offsetting these positive effects were stock selection in the Energy and Real Estate sectors, and the underweighting to Materials. Within Energy, Brazilian refining and marketing company Ultrapar Participacoes's share price was hampered by weaker than expected earnings in its retail fuels business. Indian gas company Petronet's share price weakened in July on concerns about softening liquefied natural gas (LNG) demand, although the company's quarterly earnings release in September was positive, driven by solid LNG import volumes. Within Real Estate, the lack of exposure to Chinese property stocks was the primary detractor.

From a geographic attribution perspective, outperformance during the quarter was driven primarily by China, Korea and India stock selection. These positive effects were partially offset by the overweighting to Indonesia and underweighting to Russia, as well as Mexico stock selection. Within Mexico, airport holdings Grupo Aeroportuario del Sureste and Grupo Aeroportuario del Pacifico underperformed amid some profit taking following a strong rally in the first half of the year.

Top 10 Holdings as of 30.09.2017

Company Name	*% of Fund*
Alibaba Group Holding Limited	6.2%
Tencent Holdings Limited	5.7%
Samsung Electronics Co., Ltd.	5.0%
Naspers Limited	3.2%
HDFC Bank Limited	2.8%
Taiwan Semiconductor Manufacturing Company, Ltd.	2.7%
Housing Development Finance Corporation Limited	2.4%
Sunny Optical Technology (Group) Company Limited	2.0%
Ping An Insurance (Group) Company of China, Ltd.	1.9%
YES BANK Limited	1.7%
Total of Top 10	**33.6%**

Market Review & Outlook

Global equities continued to march higher in the third quarter, supported by generally solid corporate fundamentals and positive growth conditions across the major economies. The ACWI IMI – MSCI's broadest measure of global equity performance – advanced 5.32% during the quarter and 17.24% year to date through September (in USD terms). Emerging market equities continued to outpace developed markets during the quarter, supported by continued strength in technology shares and a rebound in the energy sector.

European equity outperformance was driven by the region's ongoing economic recovery, improving corporate fundamentals and investors' perception of a potentially stronger European Union following the

French and German elections. The euro appreciated nearly 4% versus the U.S. dollar during the quarter and 12% year to date, driven by expectations for higher inflation and gradual interest rate normalization by the European Central Bank. Currency strength also bolstered U.K. returns during the quarter as the Bank of England laid the groundwork for tighter monetary policy to combat inflation.

U.S. equities achieved record highs during the quarter, overcoming mounting tensions with North Korea and weaker GDP growth expectations in the aftermath of Hurricanes Harvey, Irma and Maria. Within Japan, the release of encouraging economic data in September helped to propel equities higher into quarter end. While core inflation, labor market and industrial production data for August were broadly positive, Prime Minster Abe's decision to call a snap election raised some uncertainty on the policy outlook.

Emerging market quarterly gains were paced by Brazil, which rebounded from the latest presidential corruption scandal amid the country's nascent consumer-led economic recovery. Russia and China also posted double-digit gains for the quarter. More than half of MSCI China IMI's 14.49% quarterly gain was driven by the Information Technology sector, with the balance spread among Consumer Discretionary, Financials and Real Estate.
From a global sector perspective based on the MSCI ACWI IMI, Energy was the leading performer for the quarter, benefiting from the bounce in crude oil prices, followed closely by the Information Technology and Materials sectors. In contrast, Consumer Staples significantly lagged for the quarter, with particular weakness in U.S. and Japanese tobacco stocks.

The performance of William Blair's proprietary quantitative models demonstrated that momentum and earnings trend style factors outperformed during the quarter, while quality, fundamental volatility and valuation underperformed. These style trends were particularly acute within emerging markets.

The latest high frequency data and surveys indicate that ongoing economic expansion is gathering pace, especially in the Euro Area. At the same time, wage growth continues to be modest across most developed markets, and this is beginning to restrain consumer behavior. In Q3 2017, retail sales volumes growth decelerated across all major developed economies. From the perspective of corporates, top line growth is currently in the range of 6-10% pa; it is not meaningfully higher across emerging markets. Beyond improving corporate performance, the outlook for the remainder of this year remains relatively benign, as major national elections, especially in Europe, produced outcomes favorable for continued growth.

From a global strategy perspective, we continue to see upside potential to nominal growth in select companies and industries, as expectations do not appear extended. We do not expect the unfolding gradual withdrawal of monetary policy stimulus to be detrimental to growth either in the U.S. or in the Euro Area, where policy action is not expected until 2018. Corporate performance in the 2H 2017 is likely to be stronger in Europe and in Japan, as economic expansion in the U.S. is relatively more mature. Emerging markets are well positioned to participate in the ongoing global expansion and valuations remain relatively favorable. Recent U.S. dollar strength is unlikely to dampen the fortunes of corporates in emerging markets materially.

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