William Blair

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

Market Summary

Robust performance across growth style indices in the fourth quarter added to prior gains, resulting in exceptionally strong benchmark returns for 2017. Improving economic data and solid corporate earnings growth supported a steady market advance throughout the year. With below average volatility and stable inflationary expectations, equity market valuation multiples expanded, adding to 2017 returns.

Fourth quarter trends were consistent with 2017 themes in terms of economic and corporate health. Housing data indicated rising activity levels and prices, Purchasing Manager Index ("PMI") levels suggested strength in the manufacturing sector and unemployment neared historic lows. With rising stock and housing prices bolstering consumer net worth, confidence rose accordingly. Corporations were broadly upbeat as, in aggregate, they reported healthy earnings growth and issued forward looking guidance that topped expectations. Furthermore, corporations indicated plans to increase capital expenditures. Not surprisingly given tight labor markets, the U.S. Federal Reserve ("Fed") voted to raise the federal funds rate for the third time in 2017 and reiterated expectations for as many increases in 2018.

The U.S. tax reform bill was signed into law in late December, notably cutting the corporate statutory tax rate to 21% from 35%. In addition, the bill allows for faster depreciation of capital investments than was previously allowed, further increasing the likelihood that higher capital spending comes to fruition. While the bill is positive for U.S. corporations, the same was not true in terms of the short term impact on our relative performance as stocks with higher tax rates outperformed somewhat indiscriminately on the news. Over time, we believe the market will differentiate between companies that can retain the benefit of the tax reduction and those that will have it competed away. Given our bias toward companies with strong competitive positions, unique products and services and pricing power, we feel well positioned longer term in this regard.

Top 10 Holdings as of 31.12.2017

Company Name	*% of Fund*
Copart, Inc.	3.2%
BWX Technologies, Inc.	2.8%
CoStar Group, Inc.	2.7%
Six Flags Entertainment Corporation	2.3%
Domino's Pizza, Inc.	2.3%
Martin Marietta Materials, Inc.	2.1%
WEX Inc.	2.0%
The Middleby Corporation	2.0%
Booz Allen Hamilton Holding Corporation	1.9%
Ball Corporation	1.9%
Total of Top 10	**23.2%**

Fund Review & Outlook

The William Blair SICAV Small-Mid Cap Growth Fund underperformed its benchmark, the Russell 2500 Growth Index, during the fourth quarter. The top detractor from fourth quarter performance was our position in behavioral health company Acadia Healthcare, whose shares declined in part due to operational weakness across the company's United Kingdom facilities and tight labor conditions in the region. We liquidated our position due to our reduced confidence in management's ability to identify and address the issues that caused the weakness. Other notable underperformers included Ball Corporation (Materials), Guidewire Software (Information Technology) and Cambrex (Health Care); the three of which remained in the Fund at year end. From a sector perspective, selection within Consumer Discretionary was an area of weakness during the quarter, including our position in remote control developer Universal Electronics. We believe the issues that resulted in Universal Electronics' underperformance, including testing delays of new devices and order delays from customers, will prove to be transitory. Our top contributors to performance were Copart (Industrials) and WEX (Information Technology). Copart, an online auction platform for salvage vehicles, benefited from higher average selling prices and a greater inventory of cars for auction. Shares of payment solutions provider WEX rebounded on increased investor comfort that credit losses from an earlier fuel card fraud issue were contained, and on higher average gas prices, which boost revenues tied to the company's fuel card business. Other notable performers included SiteOne Landscape Supply (Industrials), Diamondback Energy (Energy) and Align Technology (Health Care). From a style perspective, our typical larger market cap bias provided a tailwind in the quarter as larger cap companies within our small-mid cap universe outperformed.

As we look forward, several factors could provide continued support for equities, although contrary to the somewhat euphoric market sentiment of late, they are not without risk. While the Fed has embarked upon a path of monetary policy renormalization and U.S. short term interest rates have begun to rise, global interest rates remain low by historic standards. Moreover, other measures of stress in the financial markets, such as high yield bond spreads, remain near cycle lows. Globally, solid economic growth rates, high corporate earnings and strengthening PMIs are other indicators of a broadly supportive environment for equities. Specifically within the U.S., corporations stand to benefit from the reduction of the corporate tax rate and the Administration's emphasis on deregulation. However, it remains to be seen how long those measures can sustain the current expansion or if they will have a more meaningful impact on economic growth in the next expansion. As Republican control of the U.S. House and Senate potentially weakens in 2018, politicians' attention could shift to mid-term elections rather than on any legislative agenda. Lack of further progress on pro-growth initiatives and a flattening yield curve within the U.S. could dampen optimism about the sustainability of economic growth, while a potential geopolitical conflict in the Korean Peninsula remains a significant risk globally. For the time being, however, we appear to be in the midst of a classic "Goldilocks" economy, at least as it relates to the financial markets.

As we approach the ninth anniversary of the current bull market and following a particularly strong year for equities, absolute valuations are elevated relative to historical standards; however, they do not appear egregious against the backdrop of low interest rates, low inflation and narrow high yield bond spreads. While corporate profit margins remain high, one notable risk to margins going forward is pressure from rising wages. On the surface, wage inflation has been relatively benign, but the trend of increasing wages becomes clear with an adjustment for the impact of higher-paid retirees being replaced by lower-paid entrants to the workforce. This will be of pressing concern for companies with more labor-intensive businesses and companies in more competitive industries with low barriers to entry that are unable to pass higher costs through to their customers. We continue to focus our attention on identifying durable businesses with significant competitive advantages and robust growth prospects that present compelling risk/reward opportunities. We believe portfolios with these underlying characteristics are well positioned to deliver outperformance for our clients over the long term.

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Fund Documents
The Articles of Incorporation, the Prospectus, the Key Investor Information Documents (KIID), the Annual and Half-yearly Reports of the Fund and the Subscription Form are available free of charge in English and German from our website SICAV.williamblair.com or at the registered office of the Management Company (33, rue de Gasperich, L-5826 Hesperange, Grand Duchy of Luxembourg), at the registered office of the Fund (William Blair SICAV, 31, Z.A. Bourmicht, L-8070 Bertrange, Grand Duchy of Luxembourg) or from the Swiss representative, First Independent Fund Services Limited, Klausstrasse 33, CH-8008 Zurich (Paying agent in Switzerland is NPB New Private Bank Ltd, Limmatquai 1, CH-8022 Zurich), and in German language at Marcard, Stein & Co., Ballindamm 36, 20095 Hamburg, Germany, and at Bank of Austria Creditanstalt AG, Am Hof 2, 1010 Vienna, Austria.

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William Blair's Opinion
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