William Blair

4Q 2017

Fund Manager Commentary
William Blair SICAV Global Leaders Fund

Fund Performance & Positioning

The William Blair SICAV Global Leaders Fund outperformed its benchmark, the MSCI ACWI IMI Index (net), during the fourth quarter. Fourth quarter outperformance was primarily driven by positive stock selection across most sectors. Within the Industrials sector, Southwest Airlines and Boeing positively contributed to relative performance. Shares of the U.S. air carrier climbed higher as it continued to successfully leverage its network strength, quality offering and brand resonance to generate strong corporate performance. The company should be well-positioned to benefit from an airline industry that is entering a new era defined by structural advantages built on capacity concentration at key airports, reasonable capacity additions, and higher levels of pricing discipline. Shares of Boeing increased as the outlook for margins improved. The transition to the reengineered 737MAX should support profitability as it is priced at a premium and will be produced at high volumes with more efficient production processes. Also, BHP Billiton, within the Materials sector was an additional source of outperformance. The global supplier of iron ore, oil and copper benefitted from a rise in the commodity prices in the quarter as global growth remained firm.

Partially offsetting these positive effects was an underweight allocation in the Materials sector and in the Developed/Asia - Japan region along with negative stock selection in the Consumer Discretionary sector. Within the Consumer Discretionary sector, Vail Resorts curbed relative returns. Shares of the best in class mountain resort operator declined due to concerns that below-average snowfall may curtail visitation, and the quality of the experience would dampen enthusiasm for buying next year's passes.

Market Review & Outlook

The 2017 market environment was characterized by strong and accelerating global economic growth. The broadening nature of growth was particularly noteworthy, as evidenced by strengthening industrial production volumes across the world. Corporate earnings results were bolstered by the expanding economic environment, providing a tailwind for investors. Beyond improving corporate performance, major national elections, especially in Europe, produced outcomes favorable for continued growth.

Risk assets led the markets in 2017. Emerging markets—which received oxygen from a weak U.S. dollar—performed the strongest, returning 36.8% in USD terms, as measured by the MSCI EM IMI. Developed markets also performed well, advancing 22.4% for the year (MSCI World IMI). China (+50.7%) drove emerging markets' performance to a significant extent, with additional contributions from South Korea (+46.0%), India (+43.7%), Poland (+53.6%), Chile (+43.3%) and South Africa (+34.0%)—illustrating the breadth of gains across the EM landscape.

From a global sector perspective, technology led by a significant margin in 2017, advancing 41.0% for the year (as measured by MSCI ACWI IMI), far outpacing the second best performer, materials, which gained 29.3%. Within technology, the software and services industry returned 42.2%, followed by

Top 10 Holdings as of 31.12.2017

Company Name	*% of Fund*
Amazon.com, Inc.	2.7%
Alphabet Inc.	2.6%
BlackRock, Inc.	2.5%
The Home Depot, Inc.	2.3%
JPMorgan Chase & Co.	2.3%
The Boeing Company	2.3%
Unitedhealth Group Incorporated	2.2%
Valeo SA	2.1%
Novo Nordisk A/S	2.0%
AIA Group Limited	1.9%
Total of Top 10	**22.9%**

semiconductors and equipment (+42.0%) and technology hardware and equipment (+37.8%). In contrast, energy (+5.2%) and telecom (+8.2%) were the worst performing sectors for the year.

The performance of William Blair's proprietary quantitative models demonstrated that momentum, earnings trend and growth style factors outperformed during 2017, while fundamental volatility, quality and valuation factors underperformed. These style trends were more pronounced within emerging markets.

Underpinning 2017 performance was a broadening of growth in both developed and emerging markets, which we have not seen in more than a decade. As growth broadened, it also strengthened. Year-over-year growth in industrial production volumes, a proxy for growth, ranged from 3% in the United States to 8% in Brazil.

When global growth drives expansion, it shows up in corporate earnings. In 2017, returns were driven predominantly by corporate earnings growth as opposed to price-to-earnings multiple expansion. That is not to say that multiple expansion was completely absent. Delving deeper into the sectoral composition of returns, Europe and the United States benefited from P/E expansion during the year, which we would expect in response to stronger growth performance.

The synchronized global recovery is well understood, and global growth remains firm. For us, though, it is important to understand the nature of the cycle and how far we are into it. The low-volatility regimes we have experienced in the equity and fixed-income markets carry potential risks. When change comes, it will likely be difficult, because we have been shielded from natural cyclical behavior—from negative economic and market forces—for some time. Sudden inflationary pressures and wage growth acceleration would likely alter investor return expectations, driving bond yields and volatility materially higher, while potentially triggering equity-leadership rotation both across and within sectors. Financials would be expected to benefit from higher rates, for example, but increased caution would be warranted for financially-leveraged companies. We want to be mindful of this.

Reflecting on some of the preeminent growth themes of 2017, including technology and the rise of innovation in China, we are optimistic. Despite the growing likelihood of a cyclical slowdown within the technology sector, we believe that strong secular growth will continue.

From a geographic perspective, we believe that emerging markets continue to offer attractive investment opportunities heading into 2018. In particular, there are abundant opportunities to invest in China's growth, but we are mindful of the significant share-price gains in 2017 from the perspective of near-term momentum reversal risk.

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