William Blair

4Q 2017

Fund Manager Commentary
William Blair SICAV Emerging Markets Small Cap Growth Fund

Fund Performance & Positioning

The William Blair SICAV Emerging Markets Small Cap Growth Fund outperformed its benchmark, the MSCI Emerging Markets Small Cap Index (net), during the fourth quarter. Fourth quarter outperformance was primarily driven by positive stock selection across most sectors. Industrials exposure was particularly beneficial, helped by Dilip Buildcon Ltd and Graphite India Ltd. Dilip Buildcon is a leading construction company in India with a focus on the road sector. The shares advanced after India's Finance Minister announced an ambitious program for roads and highways which would invest INR7.0tn (more than USD100bn) for the construction of 83,677km of roads over the next five years. Graphite India is a leading global manufacturer of graphite electrodes. The share price advanced after the company reported strong Q2FY18 numbers driven by healthy topline growth and strong EBITDA.

SKC Kolon PI and Capitec Bank in the Materials and Financials sectors were additional sources of outperformance. SKC Kolon PI is the leading global polyimide (PI) film maker with 22% market share, and is benefiting from rising structural demand for flexible printed circuit boards that use PI film. The share price was supported by better-than-expected 3Q17 results and Management's guidance for strong sales growth driven by demand from Chinese smartphone manufacturers. Capitec is a South African bank with a growing micro-lending franchise. The share price advanced alongside other domestic-focused banks and retail stocks amid the election of Cyril Ramaphosa as the leader of South Africa's African National Congress in mid-December.

Partially offsetting these positive effects were negative stock selection in the Health Care sector, the overweight allocation in Brazil along with underweight allocation in the Materials sector. Within the Health Care sector, unowned South Korean biotech company SillaJen detracted from relative results, as its share price advanced 123% in USD terms during the quarter, bolstering Index performance.

Top 10 Holdings as of 31.12.2017

Company Name	*% of Fund*
PSG Group Limited	2.1%
Grupo Supervielle S.A.	1.7%
PT Bank Tabungan Negara (Persero) Tbk	1.5%
CVC Brasil Operadora e Agencia de Viagens S.A.	1.5%
Airtac International Group	1.5%
Indraprastha Gas Limited	1.4%
Minth Group Limited	1.4%
Fuyao Glass Industry Group Co., Ltd	1.4%
ING Life Insurance Korea Ltd	1.4%
Gourmet Master Co. Ltd.	1.3%
Total of Top 10	**15.2%**

Market Outlook & 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 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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