William Blair

1Q 2018

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 first quarter. Outperformance was primarily driven by positive stock selection across most sectors.

The Consumer Staples and Consumer Discretionary sectors were the largest sources of relative returns, with Estee Lauder and Fevertree Drinks propelling relative performance. Estee Lauder is a leading global prestige cosmetics company with more than 30,000 points of distribution in over 150 countries across various channels, including department stores, specialty cosmetics stores, travel retail, and online. We expect the company to benefit from the rapid growth of two newly acquired brands, the continued expansion in the specialty retail and online channels, and strong growth from China and travel retail. Fevertree produces premium mixers, including tonic water, ginger beer, cola and lemonade. The company should experience rapid growth due its expanding geographic presence, increased product mix, and the trend towards premium spirits. Within the Consumer Discretionary sector, Netflix was an additional source of outperformance.

Partially offsetting these effects was an underweight allocation to the Consumer Staples and Utilities sectors. These sectors, which are traditionally considered to be relatively stable areas to invest, declined more than the MSCI ACWI IMI (net) in the first quarter against a backdrop of rising interest rates. Positive stock selection in these sectors helped returns, contributing to relative performance. During the period, Health Care exposure was reduced to an underweight position through the liquidations of Koninklijke Philips and Boston Scientific Corp. Philips was sold as our investment thesis that the company's transformation into more of a health care pure play would lead to better execution and increased valuation has materialized, leading to better opportunities elsewhere. Boston Scientific, a diversified manufacturer of medical devices, was sold

Top 10 Holdings as of 31.03.2018

Company Name	***% of Fund***
Amazon.com, Inc.	2.7%
Alphabet Inc.	2.5%
JPMorgan Chase & Co.	2.3%
BlackRock, Inc.	2.2%
Unitedhealth Group Incorporated	2.1%
Adobe Systems Incorporated	2.1%
Keyence Corporation	1.9%
Alibaba Group Holding Limited	1.8%
The Boeing Company	1.8%
AIA Group Limited	1.8%
Total of Top 10	**21.2%**

as the company appears fully valued given its expected growth profile. Materials exposure was increased during the period through the purchases of Japanese chemical manufacturers Shin-Etsu Chemical and Nissan Chemical, which should benefit from improved supply/demand dynamics and a stronger global growth backdrop. Exposure to the Consumer Discretionary sector also increased as a result of position initiations in three companies: Aptiv, an auto supplier that develops technology solutions and products related to electrification and autonomous driving; Weight Watchers, the leading commercial provider of weight management services; and Shenzhou, a leading textile manufacturer for top sports and casual wear brands. From a geographic perspective, notable adjustments during the quarter were an increase to Japan, offset by decreases to Canada and the U.K. The Fund's weighting in Emerging Markets approximated 9% at the end of the period, up from 8% at the beginning of the period.

Market Review & Outlook

The benign environment of low equity market volatility and uninterrupted monthly gains came to an abrupt halt in late January. Worries about the extended bull market and narrow leadership culminated in heavy selling pressure following reports that a handful of niche equity volatility-linked ETF products had suffered significant losses, stoking fears of broader risk contagion. The MSCI ACWI IMI fell nearly 9% in USD terms from its peak on January 26 to February 8 and traded within a +/- 5% range through the end of March.

As the quarter progressed, volatility was increasingly driven by worries that the Trump administration's pursuit of protectionist measures would ignite a trade war with China and potentially negate the positive effects of fiscal stimulus on U.S. economic growth. On the heels of the Russian election meddling inquiry, Facebook endured a growing backlash following revelations that user data had been exploited by U.K. data analytics company Cambridge Analytica. Amid the fallout and intensifying regulatory scrutiny of data privacy standards, investors were left reassessing implications for not only prospective margins and valuation multiples of the social media platform companies, but equity market leadership more broadly.

The MSCI ACWI IMI declined 0.97% during the quarter in USD terms. Emerging markets (EM) equities outperformed their developed market counterparts, gaining 1.11% as measured by the MSCI EM IMI. U.S. equities fared better than non-U.S. developed markets equities overall, but there was significant variation in relative results across different countries. Currency effects also had a significant impact on total USD returns for the quarter. For example, Japanese equities declined 5.28% in local currency terms, but gained 0.33% in USD terms as the yen strengthened. Although negative for the quarter, Continental Europe and U.K. equity returns were also bolstered by favorable currency effects, as the euro and pound sterling appreciated versus the dollar.

Within EM, Brazil (+11.61%) and Russia (+9.42%) were the top performing MSCI index constituent countries, bolstered by a rally in Energy stocks. In contrast, India (-8.02%) lagged as financials stocks were hit by negative sentiment following revelations of fraud at state-run Punjab National Bank, the country's fourth-largest lender.

Underlying recent volatility is the cyclical transition out of recovery to expansion. Global growth remains broad based and robust, but it is no longer accelerating. Global manufacturing PMIs began to roll over from unsustainably elevated levels in February and March. Current, still elevated, readings suggest that we may have another month or two of further deceleration ahead. Anytime the economic growth trajectory changes, the markets rightly question the duration and direction of near-term economic fundamentals. That is one reason why markets are more volatile during expansions, as compared to recoveries.

In times of economic expansion such as the current one, we expect companies to post robust earnings growth. In the U.S., where economic expansion is thought to be more advanced, market leadership has been quite narrow and returns, though high, have been of poor quality. Over the past five years, greater than 50% of U.S. EPS growth came from share buybacks, while 68% of total return was explained by P/E multiple expansion and only 16% by earnings growth. Earnings growth has been relatively muted, apart from select technology companies.

Looking ahead, we expect strong, broadly distributed earnings growth to underpin equities performance across both developed and emerging markets. Multiples may come under pressure in select areas, as growth today is "as good as it gets" – in other words, no longer accelerating. While there may not be an obvious, market leading sector, we believe companies from across the full spectrum of industries are likely to generate good returns in the months ahead.

While the underlying economic fundamentals argue for broader based (if more volatile) markets, current U.S.-China trade tensions are likely to amplify market swings in the current quarter. Specifically, the U.S. administration's stated objective of reducing the bilateral trade deficit with China by $100 billion implies a 30%+ reduction. The cost to the U.S. economy of implementing something this large in an election year suggests that this is another tactic to gain leverage in negotiations.

Even if no new substantial tariffs are introduced and existing supply chains and trade patterns remain largely intact, the news flow associated with the need to position negotiations for the domestic audience suggests uncertainty and market volatility in the months ahead. In the longer term, this style of negotiating highlights that U.S.-China relations have transitioned to a more confrontational path, which cannot be positive for developing closer economic ties or trade flows.

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