William Blair

2Q 2018

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

Market Summary

Strong second quarter performance across U.S. growth equity benchmarks placed U.S. growth equities among the strongest performing investment styles year-to-date. In contrast, first quarter returns were more muted. After robust market performance in January, inflationary fears arose causing market volatility to spike and most major equity benchmarks to retreat. While companies generally reported strong financial results for the prior quarter and economic data was mostly positive, trade tensions and building inflationary pressures weighed on returns for the duration of the first quarter.

In the second quarter, growth style indices were broadly positive and volatility moderated from elevated first quarter levels. Higher stock prices and declining volatility were supported by a healthy U.S. economy. Retail spending rebounded, housing starts increased and manufacturing activity remained robust despite an appreciating U.S. dollar. In addition, consumer and business confidence remained elevated. With unemployment reaching 3.8%, its lowest level since 2000, and core inflation just over 2%, the Federal Reserve announced its second rate increase of 2018 and communicated expectations for two more before year end.

With a strong fundamental backdrop and a positive tax impact, U.S. corporations generally posted robust earnings growth. As a gauge, corporations in the S&P 500 Index reported first quarter earnings growth of approximately 25%, as compared to the same period in the prior year, with over 80% of companies in the Index topping investor expectations. However, aggregate forward P/E ratios contracted as investors appeared to be mindful of risks on the horizon. Notably, trade tensions between the U.S. and China were a focus for investors over the course of the quarter, and as more countries became involved, anxiety grew that tariffs could potentially escalate into a trade war.

Top 10 Holdings as of 30.06.2018

Company Name	***% of Fund***
CoStar Group, Inc.	3.2%
Copart, Inc.	3.0%
BWX Technologies, Inc.	2.7%
TransUnion	2.3%
HealthSouth Corporation	2.3%
Martin Marietta Materials, Inc.	2.3%
Ligand Pharmaceuticals Incorporated	2.3%
Six Flags Entertainment Corporation	2.2%
Booz Allen Hamilton Holding Corporation	2.1%
Adtalem Global Education Inc.	1.9%
Total of Top 10	**24.3%**

Fund Review & Outlook

The William Blair SICAV Small-Mid Cap Growth Fund slightly underperformed its benchmark, the Russell 2500 Growth Index, during the second quarter. Relative performance in the quarter was primarily the result of stock specific drivers. Strong selection in Health Care and Industrials had a positive impact on performance and our top individual contributors, Ligand Pharmaceuticals and TransUnion, came from these sectors. Ligand Pharmaceuticals is a biotechnology company focused on the acquisition and development of a portfolio of royalty generating assets. Shares advanced after the company reported royalty and milestone revenues that significantly exceeded expectations. TransUnion, an information services company best known for its U.S. credit reporting business, outperformed on the combination of strong business results and its strategic acquisition of Callcredit, the second largest and fastest growing consumer credit bureau in the United Kingdom. Other standout performers included Health Care holdings ABIOMED, Exact Sciences and DexCom.

Conversely, stock selection in Financials detracted from performance including our positions in LendingTree and Encore Capital Group. LendingTree provides targeted online marketing that generates qualified leads for loan originators and underperformed on decreased optimism for its mortgage business. Other notable detractors included Universal Electronics and Hilton Grand Vacations in Consumer Discretionary and Ball Corporation in Materials. Remote control developer Universal Electronics underperformed as delays from its cable operator customers in deploying next generation remotes negatively impacted first quarter results and second quarter guidance. In addition, from a style perspective, our typical larger market cap bias relative to our Russell 2500 Growth benchmark was a headwind as the smaller end of our small/mid universe outperformed during the quarter.

Despite the Fed pursuing monetary tightening and the potential for a global trade war, optimism still persists across consumers, businesses and investors as we enter the tenth year of the current economic expansion. While rates still remain low relative to history, the Fed has telegraphed a path of increases and their ability to navigate the economy in the face of inflationary pressures from a potential trade war remains a risk. Further, continued uncertainty around the ultimate outcome of proposed tariffs could disrupt business planning and dampen overall productivity. However, the impact of fiscal stimulus in the form of lower corporate tax rates has largely overwhelmed trade concerns thus far. One early benefit of corporate tax reform in the U.S. has been an increase in capital expenditures, which in turn has the potential to boost productivity and create jobs longer term. In addition, the current administration has been aggressive in reducing regulation on businesses, which could be a continued tailwind for companies.

It remains to be seen how long the expansion can persist given the unprecedented fiscal stimulus at this point of the economic cycle. Broadly speaking, corporate earnings trends and forward looking guidance are reflective of the strong economy. But to the extent that rising wages, raw materials prices and freight costs begin to compress margins for the average company, we believe our portfolio companies, which generally offer strong value propositions to their customers and have more pricing flexibility, are better positioned to withstand these pressures. Our focus remains on identifying companies with durable growth drivers, independent of the economic backdrop, whose stocks present compelling risk/reward opportunities.

The Fund, the Management Company and the Investment Manager

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The Management Company has appointed WILLIAM BLAIR INVESTMENT MANAGEMENT, LLC, the asset management business of WILLIAM BLAIR & COMPANY, LLC., having its registered office at 150 North Riverside Plaza Chicago, IL 60606, USA ("William Blair Group") as the investment manager for the Fund (the "Investment Manager").

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