William Blair SICAV
Dynamic Diversified Allocation Fund

Class Z (H AUD)

William Blair

Quarterly Review

December 2018

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- **Dynamic Diversified Allocation is positioned cautiously in respect of systematic market risk (beta) and overall strategy risk as compared to the long-term expected averages.**
- **The near-term macro environment still presents risks that mitigate the attractiveness of fundamental opportunities across the opportunity set.**
- **Unsystematic market and currency exposures have been the dominant drivers of recent performance.**

Performance Summary

The Dynamic Diversified Allocation strategy completed the quarter with positive performance, with currency exposures contributing and aggregate market exposure and security selection detracting. Within markets, the portfolio benefitted from relative exposures within emerging equities and short exposure to Japanese and Canadian equity. Negative contributors to performance in the market strategy were long exposures to Europe and global equities. Within currencies, long exposure to the Turkish lira and Indian rupee added value, while long exposure in the Mexican peso and short exposure in the Indonesian rupiah detracted. Security selection detracted, driven primarily by International Leaders, while U.S. All Cap Growth and U.S. SMID Cap Growth contributed.

Strategy Positioning

Market strategy remains long of equities, with effective exposure of +24%. The strategy remains long of U.S., developed Europe, U.K., and emerging equities. Market strategy is modestly long of fixed income with a net exposure of +13%.

Within currencies, strategy remains long of currencies such as the Turkish lira, Philippine peso, and Indian rupee with the largest short positions in the Thai baht, Swiss franc, and New Zealand dollar.

Strategy Review and Outlook

Global equity prices fell in the fourth quarter. After declining almost 10% in October (measured by the MSCI ACWI, hedged into U.S. dollars), markets stabilized in November but then renewed their sell-off into December. Many equity markets ended the quarter with double-digit negative returns and, with very few exceptions, were down for the year. Among equity sectors, more defensive (value-oriented) areas including utilities and real estate outperformed growth-sensitive sectors such as information technology and consumer discretionary in the quarter. The energy and financial sectors remained relative underperformers. Emerging equities as a whole suffered less than developed markets in the quarter, with some significant differences among countries (such as in Brazil, where the market was strong, and Mexico, which performed particularly poorly). Bond yields declined modestly amid equity weakness—the returns for 2018 from the Barclays Global Aggregate Bond Index (hedged into U.S. dollars) posted a small (lower than cash) positive return. In currencies, sharp rebounds from earlier extreme weakness enabled the Turkish lira and Argentine peso to be the strongest currencies in the fourth quarter (inclusive of carry yield), reducing what had been a very large divergence in performance year-to-date. The U.S. dollar gained modestly against most other currencies in the quarter, and has also done so for the year. However, the strongest currency in our investment universe, in contrast to its equity market, was the Mexican peso, underscoring the importance of separating currency exposure from market exposure and accepting only that which is desired.

We entered 2018 with a low or well-below-average level of equity exposure, or "systematic risk," in our portfolios, and we generally reduced it further as the year progressed. In addition to this low equity beta posture, we have for some time owned additional protection from substantial market falls via put options in our strategies. Put options tend to reduce exposure to falling prices depending on where their exercise price is struck. Our put option exposures were struck below prevailing market prices ("out of the money"), meaning that the downside protection was and is expected to take effect in large market declines of more than 10%, hence the experience in the quarter was that this protection only mildly benefited our performance. However, we have retained the options positions, which are not all put options on equities, but also on high yield fixed income and some emerging currencies—prices that we anticipate will be positively correlated with falling equities in a large "risk-off" situation. This is because although significantly lower equity markets in general are not our base case (markets in aggregate are not fundamentally overvalued), we nonetheless are concerned that events could unfold to reveal severe vulnerabilities wrought by the removal of ultra-easy monetary policies, the proliferation of rules-based investment capabilities likely ill-equipped to weather a large market downturn, and our concerns about the lack of price-cushioning liquidity in such an event, all coupled with potentially harmful effects of myriad trading halts and "circuit-breakers" built into many market exchanges. We have delineated these four concerns in the past—in both blog posts and our recent "Navigating a Troop of Gorillas" paper—and therefore will not repeat them here.

Although 2018 did not witness a full-blown bear market in global stocks (defined as a fall of 20% or more), the down moves in the first and the fourth quarter may serve as a warning of such a market environment ahead. We avoided capturing the negative returns associated with the 2018 bouts of weakness and anticipate that the portfolios are not at great risk of downside beta capture looking forward. This is not only due to keeping our systematic market risk low (and protected via options), but also because we have tended to take investment risk in uncorrelated areas (non-systematic market risk) and in currencies. Despite being diversified away from sensitivity to market direction, these non-systematic and currency opportunities proved to be a challenge—and a drag on performance—in the middle two quarters of the year. But they were rewarded during the first quarter's pullback beginning at the end of January and have been rewarded significantly in the latest quarter, as global markets headed lower beginning in October. Our long exposure in the Turkish lira, which moved very far from fundamental value in the third quarter, was one of the largest positive contributors to performance from September onward. We increased the lira exposure in August because despite the severe adverse impact on the currency of President Erdogan's verbal interference in the operations of the central bank (Erdogan strongly and publicly favored easing monetary policy in the face of rapidly increasing inflation, in direct opposition to market orthodoxy), we had concluded that the president's "fight" with the markets was one he could not win, and that he would have to retreat from his stance. Furthermore, because of Erdogan's rhetoric, the lira had become a very deeply undervalued currency with a very high positive interest rate carry, which together provided a strongly compelling currency opportunity of a magnitude seldom seen, though not completely unprecedented. In addition, the risks, though considerable, were non-systematic: the lira's woes were wrought by specific developments in Turkey, not linked to any wider market influence, and not replicated elsewhere in our investment landscape. Again, this was underlined by the performance impact of lira exposure being uncorrelated with market direction: negative when global equities were relatively buoyant, and positive when they declined in price. As the lira rebounded, we partly reduced our long exposure in October, but the position remains significant.

In the realm of non-systematic market exposures, our relative equity sector positions have also provided diversification from systematic market direction, as the sectors we find unattractive (IT, consumer discretionary, communication services) have tended to be underperformers in environments of market weakness, while ones we find attractive (utilities, staples) have outperformed at such times. Sector contribution to performance was positive in the latter months of the year, but had been adverse for much of the year prior. We trimmed our utilities exposure in late October following the sector's outperformance, which resulted in a slight narrowing of forward-looking opportunity. Our long exposures in energy and financials (also fundamentally attractive sectors) have yet to be significantly rewarded. The fundamental opportunity across sectors remains significant, and we anticipate it will continue to provide macro diversification in a potential environment of global equity weakness should that transpire.

We also made some changes to our country-level equity exposures. We had reduced long exposure to Brazil (fundamentally attractive) in advance of the county's presidential election, but following this event (won by Jair Bolsonaro) we re-increased the position in several steps. Brazil is now among our largest long equity exposures in the portfolio, across developed and emerging markets. Although Bolsonaro imparts some populist risks to public policy, our assessment is that his economic plans are likely to be generally positive and market friendly, and his appointed finance minister is well respected. The Brazilian economy is recovering from a long and deep recession in 2015 and 2016, and thanks to the "Lava Jato" federal investigation into corruption, we believe that the direction of change in institutional quality and governance in the country is positive, albeit from a reasonably low base.

Contrastingly in Italy, where the populist coalition government is in confrontation with the European Union over the magnitude of fiscal spending, we reduced our equity exposure to flat. In Europe, our favored market exposures are now in Spain, France, the United Kingdom, and Greece. But we also reduced long exposure to the United Kingdom at the end of November while simultaneously cutting back our position long of the U.K. currency (GBP). Both the U.K. equity market and the currency remain below fundamental value, but political risks have risen—as we anticipated they would—as the timetable prescribed for the United Kingdom to exit the European Union has approached its end. The risk in respect of Brexit is that insurmountable disunity within the U.K. parliament may result in a disorderly "crash out" that represents a large negative hit to growth prospects. Our base expectation is for a much more moderate exit, but parliamentary agreement on this is currently hard to observe, which is a near-term headwind against an otherwise attractive U.K. exposure.

Our longer-term investment objective is to deliver positive investment returns above inflation through a market cycle. We remain grounded in fundamental valuation as our first step—we strive to take only compensated risks and are unwilling to extend exposures unduly in a reach-for-yield that would be dictated not by opportunities and risks, but by very low real interest rates. There will be environments in which we conclude that macro markets do not provide returns and risks compatible with portfolio objectives alongside other periods where compensation is abnormally high. During the last decade, the challenge of navigating these evolving environments has remained a significant component in the investment landscape, but we find our investment process, dialogue, and decision-making well-equipped to meet this challenge in an appropriate way. We remain vigilant as we assess new and relevant information to capture future investment opportunities in a timely manner and will continue balancing the relationship between risk taken and compensation expected.

The below table shows the performance of the William Blair SICAV – Dynamic Diversified Allocation Fund for the quarter.

Periods ended 31/12/2018	**Quarter**	**YTD**	**1 Year**	**3 Year**	**5 Year**	**Since Inception***
William Blair SICAV – Dynamic Diversified Allocation Fund (Class Z H^{AUD})	1.59%	0.65%	0.65%	4.40%	5.59%	5.96%
JP Morgan Cash Index Australia (3M)	0.50%	2.05%	2.05%	2.09%	2.31%	2.32%
Australia CPI + 5%**						6.63%

*Inception: 05/12/2013
**Long-Term Return Objective

The deposit rates used in the calculation of the JP Morgan Cash Index are LIBOR or similar local reference rates. The Australia CPI Index + 5% is included as a supplemental reference and represents the performance target of outperforming inflation by five percentage points. This is a long-term performance target and, therefore, is only included for the period since inception. The Consumer Price Indexes (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

Periods greater than one year are annualised. All charges and fees have been included within the performance figures. For the most current month-end performance information, please visit our Web site at sicav.williamblair.com.

Please refer to the 'Important Disclosures' section at the end of this document for further information on investment risks and returns.

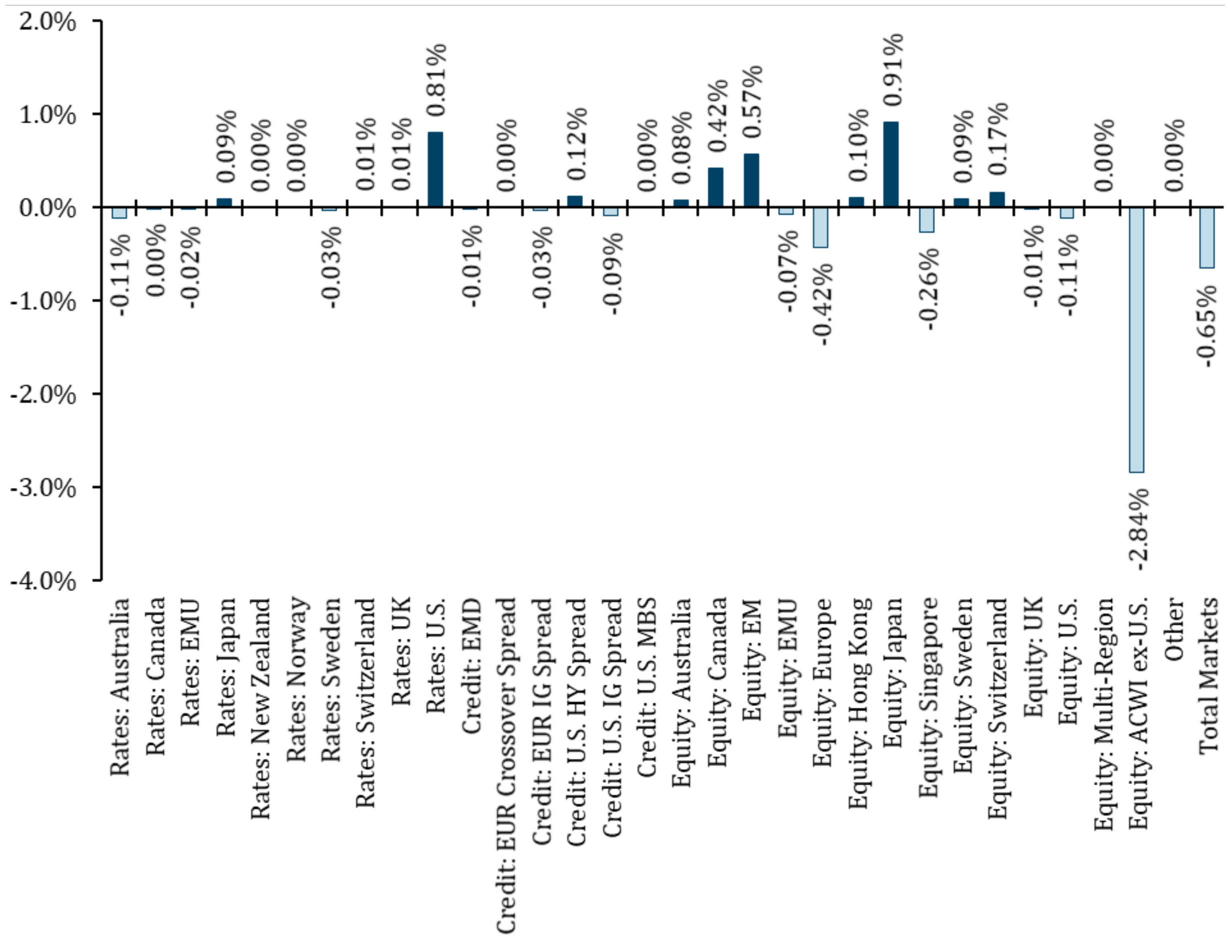
The below table shows the calculated regional performance attribution of DDA SICAV by asset segment for the reporting period.

Dynamic Diversified Allocation 4Q 2018	Equity	Rates	Credit	Currency	Security Selection	Residual / Other	Total
North America	0.31%	0.80%	0.03%	0.00%	0.29%		**1.42%**
Developed Europe	-0.25%	-0.04%	-0.03%	0.11%	0.00%		**-0.21%**
Developed Asia (ex Japan)	-0.08%	-0.11%	0.00%	0.01%	0.00%		**-0.18%**
Japan	0.91%	0.09%	0.00%	0.15%	0.00%		**1.15%**
Emerging Markets	0.57%	0.00%	-0.01%	2.06%	0.00%		**2.61%**
Multi-Region	-2.84%	0.00%	0.00%	0.00%	-0.71%		**-3.55%**
Residual/Other							**0.35%**
Total	**-1.38%**	**0.74%**	**-0.01%**	**2.32%**	**-0.42%**	**0.35%**	**1.59%**

Source: *Bloomberg and DataStream.*

Past performance does not guarantee future results. *Portfolio exposures based on the William Blair DDA SICAV. Relative monthly market attribution is an internal estimate that applies hedged returns sourced from Bloomberg and DataStream to the beginning of month strategy exposures and includes changes throughout the month. The categories included seek to group instruments that represent strategic exposures. Attribution analysis is not a precise measure and should not be relied upon for investment decisions. Please refer to the 'Important Disclosures' section at the end of this document for further information on investment risks and returns.*

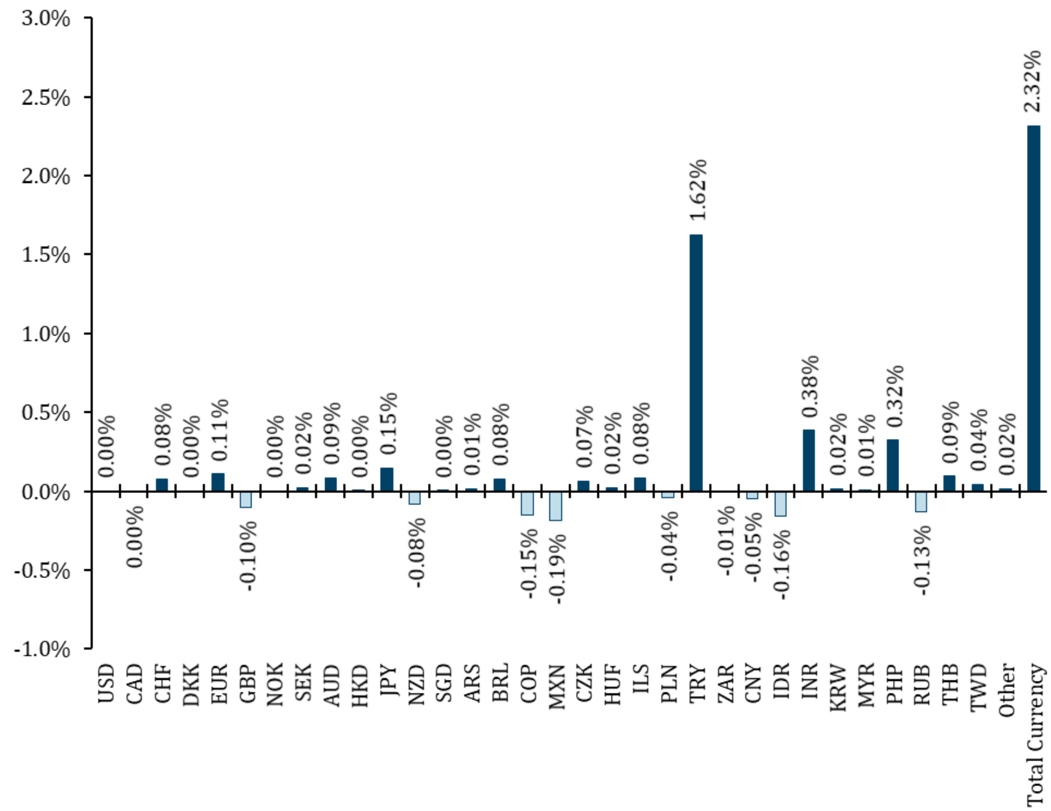
The below chart shows the calculated market segment performance attribution for DDA during the reporting period.



Source: *Bloomberg and DataStream.*

Past performance does not guarantee future results. *Portfolio exposures based on the William Blair DDA SICAV. Relative monthly market attribution is an internal estimate that applies hedged returns sourced from Bloomberg and DataStream to the beginning of month strategy exposures and includes changes throughout the month. The categories included seek to group instruments that represent strategic exposures. Attribution analysis is not a precise measure and should not be relied upon for investment decisions. Please refer to the 'Important Disclosures' section at the end of this document for further information on investment risks and returns.*

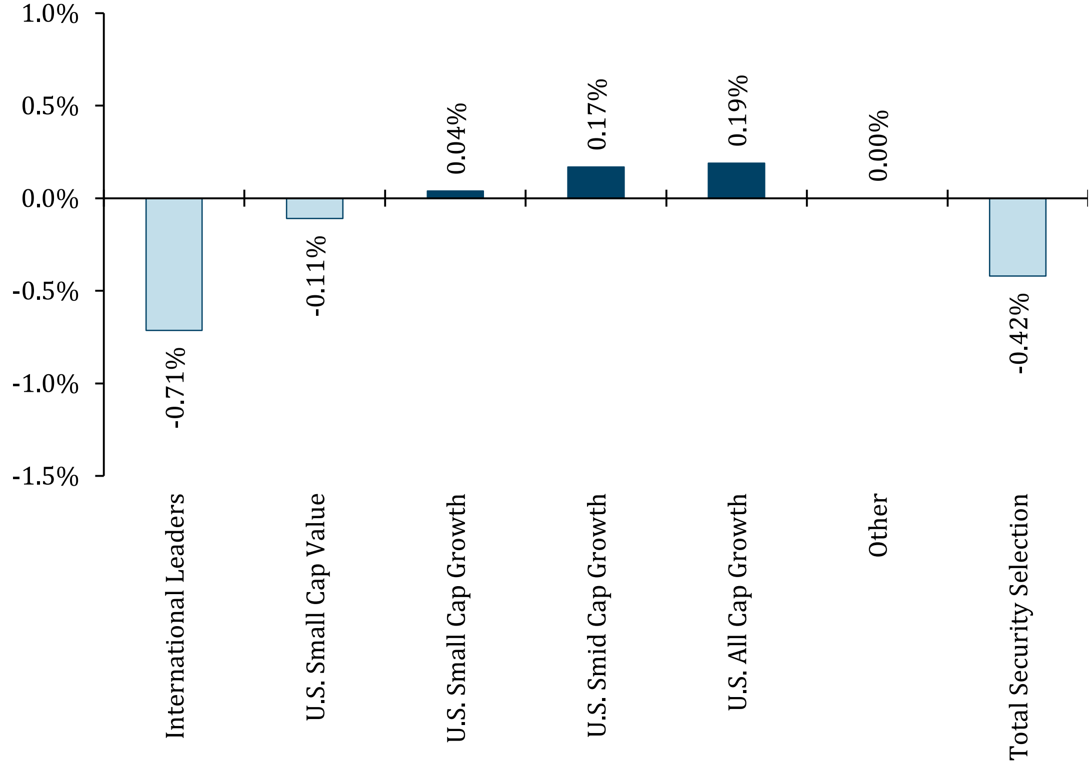
The below chart shows the calculated currency performance attribution for DDA during the reporting period.



Source: *Bloomberg and DataStream.*

Past performance does not guarantee future results. *Portfolio exposures based on the William Blair DDA SICAV. Relative monthly market attribution is an internal estimate that applies hedged returns sourced from Bloomberg and DataStream to the beginning of month strategy exposures and includes changes throughout the month. The categories included seek to group instruments that represent strategic exposures. Attribution analysis is not a precise measure and should not be relied upon for investment decisions. Please refer to the 'Important Disclosures' section at the end of this document for further information on investment risks and returns.*

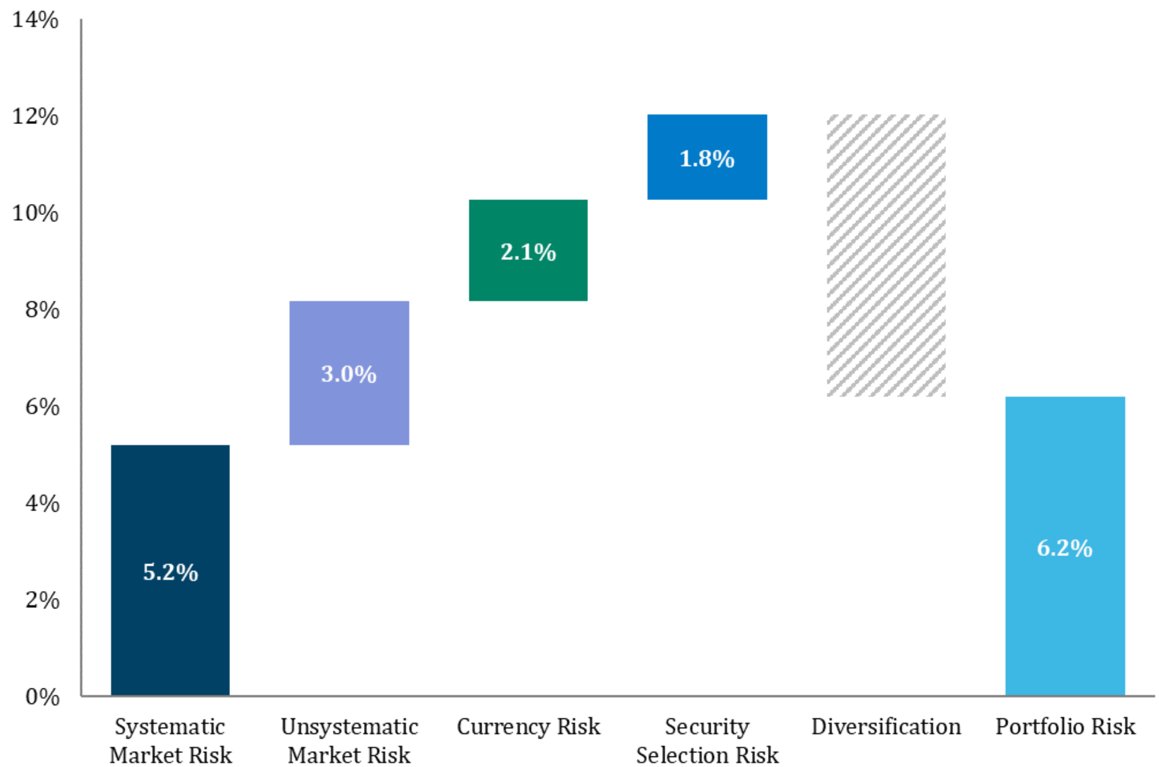
The below chart shows the calculated security-selection-oriented performance attribution for DDA during the reporting period.



Source: *Bloomberg and DataStream.*

Past performance does not guarantee future results. *Portfolio exposures based on the William Blair DDA SICAV. Relative monthly market attribution is an internal estimate that applies hedged returns sourced from Bloomberg and DataStream to the beginning of month strategy exposures and includes changes throughout the month. The categories included seek to group instruments that represent strategic exposures. Attribution analysis is not a precise measure and should not be relied upon for investment decisions. Please refer to the 'Important Disclosures' section at the end of this document for further information on investment risks and returns.*

The below chart shows the expected sources of investment risk for DDA as of quarter-end.



Source: William Blair.
The DAS team's expectation of the portfolio's volatility as viewed through the team's proprietary Outlook risk model, in which the team's near-term risk assumptions are quantified.

The table below shows select market and currency strategy exposures as of quarter end.

Equity	**24.0%**
U.S.	4.9%
Canada	-2.8%
Europe (ex-U.K.)	3.6%
UK	2.5%
Asia Developed	2.1%
Emerging	13.7%

Fixed Income	**12.8%**
U.S. Treasury & Credit[1,*]	8.5%
Non-U.S. Treasury & Credit[1,*]	2.3%
Emerging	2.0%

Unencumbered Cash	**23.0%**

Active Currency	
U.S. Dollar (USD)	-7.9%
Canada Dollar (CAD)	0.0%
Other Americas	9.7%
Euro (EUR)	-5.1%
Switzerland Franc (CHF)	-7.6%
Great Britain Pound (GBP)	2.5%
Other Europe	1.3%
Australia Dollar (AUD) and New Zealand Dollar (NZD)	-9.3%
Japan Yen (JPY)	5.1%
China Yuan (CNY)	-2.5%
Asia (Excluding JPY and CNY)	1.9%
Other	11.8%

****Credit Detail***	
U.S. Investment Grade Spread	*5.4%*
U.S. High Yield Spread	*0.7%*
U.S. MBS Spread	*0.0%*
European Investment Grade Spread	*3.5%*
European High Yield Spread	*0.0%*

Select Exposures Detail[2]	
Turkish Lira (TRY)	*8.5%*
Philippine peso (PHP)	*9.0%*
Indian rupee (INR)	*7.1%*

[1]Reflected as 10-year exposures

[2]Select currency exposures by largest expected contribution to portfolio risk

Market and currency strategy exposures shown above are as of quarter-end. For illustrative purposes only and not intended as investment advice. Allocations are subject to change without notice.

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The Management Company has been appointed as the management company of WILLIAM BLAIR SICAV, a "société d'investissement á capital variable", incorporated under the laws of the Grand Duchy of Luxembourg having its registered office at 31, Z.A.I. Bourmicht, Bertrange, registered in the R.C.S. Luxembourg under n° 98806 and approved by the CSSF as an undertaking for collective investment in transferable securities (UCITS) in accordance with the EU directive 2009/65/EC, as amended (the "Fund").

The Management Company has appointed WILLIAM BLAIR INVESTMENT MANAGEMENT, LLC, the asset management business of WILLIAM BLAIR & COMPANY, LLC., having its registered office at 222 West Adams Street Chicago, IL 60606, USA ("William Blair Group") as the investment manager for the Fund (the "Investment Manager").

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