

Fund Manager Commentary  
 William Blair SICAV Emerging Markets Growth Fund

**Fund Performance & Positioning**

The William Blair SICAV Emerging Markets Growth Fund underperformed its benchmark, the MSCI Emerging Markets IMI Index (net), during the fourth quarter. Underperformance versus the Index was primarily driven by negative stock selection across most sectors coupled with the IT overweighting and Utilities and Industrials underweightings. Stock selection within the Communication Services was particularly weak, as Chinese social media platforms Tencent Holdings and Momo Inc weighed on relative performance. Tencent's share price declined sharply in the first part of the quarter as continued regulatory and macro headwinds weighed on investor sentiment ahead of the company's Q3 earnings report. Momo's stock weakness was driven by management's disappointing guidance due to softness in its live streaming business, coupled with a broader sector rotation away from higher valuation stocks during the quarter.

Partially offsetting these effects was an overweight to Financials and positive stock selection within the Materials and Industrials sectors. Within Materials, Asian Paints, India's leading decorative paints company, enhanced relative results. The stock was lifted by the company's favorable fundamental outlook given recent price hikes and lower oil prices. Localiza Rent a Car SA, Brazil's leading car rental company within the Industrials sector, also added to performance. Localiza's share price strength was underpinned by the company's solid Q3 earnings and revenue growth and robust growth prospects, coupled with positive investor sentiment towards Brazil.

From a geographic perspective, China was the most significant detractor, dragged down by weak stock selection in Financials and Communication Services coupled with the Consumer Discretionary and Health Care sector overweightings. Conversely, India was a notable contributor, boosted by the Financials and Consumer Staples overweightings.

During the fourth quarter, Information Technology exposure was reduced to an underweight position through liquidations and position trims. Sunny Optical Technology Group was sold due to weak fundamental

**Top 10 Holdings as of 31.12.2018**

<i>Company Name</i>	<i>% of Fund</i>
Taiwan Semiconductor Manufacturing Company, Ltd.	5.0%
Tencent Holdings Limited	4.8%
Alibaba Group Holding Limited	4.4%
Ping An Insurance (Group) Company of China, Ltd.	3.2%
HDFC Bank Limited	3.1%
Housing Development Finance Corporation Limited	2.6%
Samsung Electronics Co., Ltd.	2.5%
China Merchants Bank Co., Ltd.	2.2%
Itau Unibanco Holding S.A.	2.1%
Naspers Limited	2.0%
<b>Total of Top 10</b>	<b>31.9%</b>

trends, a softer demand outlook and increased competition. Furthermore, Samsung Electro-Mechanics Co, the Korean electronic component manufacturer, was eliminated amid weaker expectations for MLCC pricing and subdued unit growth. Health Care exposure was also reduced to an underweight position during the period. Chinese pharmaceutical companies CSPC Pharmaceutical and Jiangsu Hengrui Medicine were sold amid headwinds from the Chinese government's focus on drug price decreases. These reductions were offset primarily by increases to Financials and Consumer Discretionary.

Within Financials, China Merchants Bank and Moneta were recent purchases. China Merchants Bank is a premier banking franchise, with a strong position in retail and SME lending. The bank has continued to deliver stronger earnings growth and ROE than larger peers while improving credit quality as well as capital and reserves positions. Moneta Money Bank is leading consumer lending company in the Czech Republic. Moneta's operating momentum has accelerated and we believe it will remain strong as the bank benefits from solid economic growth and a higher interest rate environment which we believe supports loan growth

and the net interest margin prospectively. Moreover, the recently announced acquisition of two Czech banks will likely boost future growth prospects. Lojas Rener, the Brazilian apparel retailer was purchased within the Consumer Discretionary sector. We believe the company can deliver robust growth over the next several years with strong cash generation driven by structural share gains in Brazil's apparel retail market and solid execution. From a geographic perspective, notable adjustments were an increase to Brazil, offset by decreases to South Korea and India.

### Market Review & Outlook

Heightened concerns about slowing global growth, rising interest rates and tighter liquidity conditions contributed to the broad selloff across global equity markets in the fourth quarter of 2018. The sharp decline in global equities during the quarter (-13.28% for the MSCI ACWI IMI in USD terms) wiped out positive gains for the year and sent indices firmly into negative territory (-10.08%).

The final weeks of 2018 were nothing short of dramatic, punctuated by the U.S. political dispute over the budget which ultimately resulted in the federal government shutdown. Investors were also rattled by the increasingly volatile nature of U.S.-China relations, including the arrest of Huawei Technologies' CFO on suspicion of violating U.S. sanctions against Iran, further complicating the trade war outlook.

U.S. equities fell -13.52% for the quarter – the worst quarterly performance since 3Q2011, as measured by the S&P 500. The majority of underperformance occurred in December over concerns of higher interest rates and renewed political turmoil ahead of the new congressional session. From a sector perspective, Energy equities were hurt the most (-25.77% for the quarter) as the WTI oil price plunged over 40% to as low as \$42 per barrel in December.

European and U.K. equities trailed on concerns over slowing economic growth, political turmoil in Italy, and increasing Brexit uncertainty ahead of the March 29 deadline for withdrawal from the European Union. Uncertainty surrounding not only the terms of Brexit but the continuation of Brexit itself weighed more heavily on domestically-oriented U.K. sectors such as real estate and small cap companies more broadly. Amid this difficult backdrop, the MSCI Europe ex-UK IMI declined 13.68% and the MSCI UK IMI fell 12.66% in USD terms during the quarter.

Emerging market equities outpaced developed markets during the quarter, led by strong outperformance in Brazil (+14.28% USD terms), Indonesia (+8.28%), and India (+3.20%). Within Brazil, optimism towards the newly elected government and pension reform prospects supported investor sentiment. The significant decline in oil prices contributed to gains for Indonesia and India on hopes of moderating inflation prospects, given both countries' dependency on oil imports.

As we begin 2019, surveys suggest that momentum in global growth continued to decelerate at the tail end of last year. Specifically, purchasing manager surveys continue to point to deceleration in the pace of industrial orders growth and subsequent industrial production growth. We regard the deceleration in economic activity in the U.S. to be more about the base effect rather than the end of the current economic cycle. As the impact of highly stimulative fiscal policy unveiled at the beginning of 2018 begins to dissipate, the U.S. economy is likely to slow to 2-2.5% growth, from the high of 4.2% in Q2 2018.

At the same time, we continue to expect the divergence between the U.S. and other economies to begin to normalize. If the rest of the world continues to grow at the current pace, while the U.S. economy slows, the growth wedge and by extension the substantial outperformance of U.S. markets vis-à-vis the rest of the world is likely to moderate from here.

In Europe, near-term indicators of industrial activity continue to decelerate. At the same time, employment and income growth together with corporate balance sheets suggest support for domestic demand growth comparable to the 2018 rate. Italian budget woes have subsided, at least for now. While Brexit uncertainty remains an overhang, we believe the U.K. Parliament will seek to avoid near-term economic disruption.

The exceptionally strong U.S. economy and rising U.S. bond yields supported the U.S. dollar in 2018, contributing to a challenging year for emerging market economies. Looking ahead, these headwinds are likely to subside. Further, in the final quarter of 2018, the price of crude oil declined by a third, significantly easing constraints on emerging market economies, as many are large energy importers.

The likelihood of a U.S.-China trade deal and de-escalation of tariff wars has risen at the beginning of

2019. Later in 2019 or in 2020, the U.S. is likely to become a sizeable exporter of LNG and petroleum products. It needs to find consumers for its products, which will be relatively more expensive because of shipping costs. China is the largest and fastest growing consumer of such products. Thus, the economic rationale for a trade deal is substantial and imminent.

Last year, China implemented significant and wide-spread changes in its tax structure, especially income taxes. We expect that reducing taxes for households is likely to support consumer demand in China. We are not expecting China to implement a large stimulus, but slow policy changes have been made to keep growth steady. The recently announced reserve rate requirement cut is noteworthy in its size: the reserve ratio for major banks now stands at 13.5%, down from 17% a year ago.

Recent positioning adjustments within our ACWI-oriented funds generally reflect our incrementally less cautious outlook on emerging markets. Within our dedicated emerging markets strategies, we have added to Brazil and maintained overweighted positions in India. Within China, we continue to emphasize domestically-oriented consumer, healthcare and technology companies that we believe are well positioned to benefit from the economy's ongoing transition to a consumption and services-driven growth model.

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#### FUND INFORMATION

The SICAV has appointed FUNDROCK MANAGEMENT COMPANY S.A., a "société anonyme" incorporated under the laws of the Grand Duchy of Luxembourg and having its registered office at 33, rue de Gasperich, L-5826 Hesperange as its management company (the "Management Company"). The Management Company is authorised and regulated by the Luxembourg Supervisory Authority of the Financial Sector (the "CSSF") as the management company of UCITS (defined below) under the EU directive 2009/65/EC, as amended.

The Management Company has been appointed as the management company of WILLIAM BLAIR SICAV, a "société d'investissement à 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, having its registered office at 150 North Riverside Plaza Chicago, IL 60606-1598, USA ("William Blair Group") as the investment manager for the Fund (the "Investment Manager").

The Articles of Incorporation, the Prospectus, the Key Investor Information Documents (KIID), the Annual and Half-yearly Reports of the Fund and the Subscription Form are available free of charge in English and German from our website [SICAV.williamblair.com](http://SICAV.williamblair.com) or at the registered office of the Management Company (33, rue de Gasperich, L-5826 Hesperange, Grand Duchy of Luxembourg), at the registered office of the Fund (William Blair SICAV, 31, Z.A. Bourmicht, L-8070 Bertrange, Grand Duchy of Luxembourg) or from the Swiss representative, First Independent Fund Services Limited, Klausstrasse 33, CH-8008 Zurich, and in German language at Marcard, Stein & Co., Ballindamm 36, 20095 Hamburg, Germany, and at Bank of Austria Creditanstalt AG, Am Hof 2, 1010 Vienna, Austria.

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