William Blair

4Q 2018

Fund Manager Commentary
William Blair SICAV US All Cap Growth Fund

Market Summary

Substantially negative fourth quarter equity returns erased prior 2018 gains and U.S. equity indices ended the year in negative territory. Larger cap indices fared better, as the S&P 500 Index narrowly avoided bear market territory, while the Russell 2000 Index declined more than 20% from its peak.

After starting the year with a continuation of 2017 strength, the market sold off and volatility spiked amid concerns of the economy overheating, rising input costs and elevated valuations. Following the early sell off, rising equity returns for the second and third quarters were primarily driven by strong corporate earnings coupled with modest valuation expansion as investor confidence in the durability of the U.S. economic expansion increased. Investors appeared to largely dismiss concerns about an escalating trade war with China and a flattening yield curve, which has sometimes preceded an economic slowdown. Through the first three quarters of 2018, returns for U.S. growth style indices were robust and many ended the third quarter at or near all-time highs.

In a sharp reversal, driven by downdrafts in October and December, equities declined in the fourth quarter as risks that had previously been disregarded came into focus. This was at least partially triggered by Fed Chairman Powell's comments in October that the federal funds rate was "a long way from neutral." Fundamentally, corporate earnings trends continued to be positive, supported by corporate tax cuts and a healthy U.S. economy. Companies in the S&P 500 Index, in aggregate, posted year-over-year earnings growth in excess of 25% for the third consecutive quarter. However, consensus estimates for fourth quarter and 2019 earnings growth were revised downward and valuation multiples contracted. At the same time, oil prices collapsed and the yield curve flattened further. At the core of the reversal in market sentiment was investor concern surrounding U.S. political dysfunction, unresolved trade tensions with China, monetary tightening by the Federal Reserve, softer housing market data and a weaker economic backdrop outside of the U.S. As market participants focused on these uncertainties, volatility rose and equity prices declined markedly, wiping out prior 2018 gains.

Top 10 Holdings as of 31.12.2018

Company Name	***% of Fund***
Microsoft Corporation	7.4%
Alphabet Inc.	6.8%
Amazon.com, Inc.	6.6%
Mastercard Incorporated	4.1%
Unitedhealth Group Incorporated	3.9%
Intercontinental Exchange, Inc.	2.7%
Worldpay, Inc.	2.4%
Raytheon Company	2.4%
The Progressive Corporation	2.4%
Zoetis Inc.	2.3%
Total of Top 10	**41.0%**

Fund Review and Outlook

The William Blair SICAV US All Cap Growth Fund outperformed its benchmark, the Russell 3000 Growth Index, during the fourth quarter. Outperformance for the quarter was largely due to stock specific dynamics as style effects were offsetting. Stock selection in Information Technology was a notable benefit to relative performance including our position in open source software provider Red Hat which announced in the quarter that it was being acquired by IBM. Also within Information Technology, not owning Apple and NVIDIA had materially positive effects on relative performance.

Market exchange operator Intercontinental Exchange was also top contributor in the quarter as revenue growth accelerated in its data services business in the third quarter and higher equity market volatility throughout the fourth quarter is likely to be positive for its exchange business. Other top contributors were Ball Corporation (Materials), Starbucks (Consumer Discretionary) and UnitedHealth Group (Health Care). Conversely, BWX Technologies, the sole-source provider of nuclear propulsion systems for the U.S. Navy, was a top detractor after the company disclosed new information that indicated a materially longer build time for naval nuclear power units than was previously appreciated by investors broadly. Flash-based storage solutions provider Pure Storage was also a top detractor as shares declined in conjunction with many fast-growing technology companies, despite the fact that fundamentals at the company remained strong and forward-looking guidance was solid. Other top detractors were Weight Watchers International (Consumer Discretionary), Ligand Pharmaceuticals (Health Care) and Worldpay (Information Technology). From a style perspective, our emphasis on companies with less volatile fundamentals was a tailwind which was mostly offset by a headwind from our lower dividend yield exposure. Our lower dividend yield exposure is driven by our higher and more sustainable growth bias.

After nearly a decade of economic and stock market expansion, investor focus appears to have shifted toward risks that could derail both. Notably, the Fed has communicated the potential for additional increases in the federal funds rate in 2019, at the same time it shrinks its balance sheet. If too aggressive, Fed action could provide a headwind to growth in 2019. Also prominent is the risk of continued political uncertainty, both in the U.S. and abroad. We closed 2018 with a partial shutdown of the Federal government, emblematic of the political “gridlock” that could continue into 2019 given the balance of power in Congress and frequent changes of key personnel within the administration. Moreover, uncertainty with respect to Chinese tariff negotiations could thwart corporate productivity in the U.S., while escalation to an all-out trade war would have significant ramifications on global growth, with potentially heighted risk for emerging economies that are highly dependent on trade.

In reflection of the above, U.S. equity market valuation multiples contracted significantly during the fourth quarter. At the same time, consensus earnings growth estimates were revised downward, likely in anticipation of a deceleration in U.S. economic growth, fading fiscal stimulus, and pressure on margins including higher interest rates, input prices and wages. That being said, positive profit growth is still expected for 2019, albeit at a more moderate pace than the spectacular earnings growth witnessed in the first three quarters of 2018. Presuming no material fundamental deterioration, and given the fact that both valuation multiples and growth expectations have come down, we are constructive on the U.S. equity market as we head into 2019. While volatility may persist, the reset in both valuations and investor expectations leaves the market with room for upside in the event of positive surprises on the China trade front or an eventual pause in the Fed interest rate hike cycle. We continue to focus our efforts on identifying durable businesses with sustainable growth opportunities that are underappreciated by the market. We believe a portfolio of companies with these characteristics will be rewarded in a variety of economic and market environments.

current month-end performance information is available on sicav.williamblair.com.

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 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, 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 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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