

## Fund Manager Commentary

### William Blair SICAV Emerging Markets Leaders Fund

#### Fund Performance & Positioning

The William Blair SICAV Emerging Markets Leaders Fund underperformed its benchmark, the MSCI Emerging Markets Index (net), during the fourth quarter. Outperformance versus the Index was driven by a combination of favorable allocation and stock selection effects. An underweight allocation to Energy coupled with strong stock selection within the Financials and Communication Services sectors helped relative results. Within the Financials sector, Bank Rakyat Indonesia Persero and Itau Unibank contributed the most to relative returns. Bank Rakyat was boosted by the bank's robust loan growth in Q3 despite tighter financial conditions, improved macroeconomic backdrop and stronger rupiah currency. Itau shares strengthened amid favorable investor sentiment post the Brazilian presidential election results, upbeat management outlook and real currency appreciation. Within the Communication Services sector, results were boosted by favorable stock selection in the Interactive Media and Services industry and outperformance by Telekomunikasi Indonesia.

Partially mitigating these effects was the negative contribution from the Consumer Staples sector and stock selection within the Energy sector. Within the Staples sector, both the overweighting and stock selection hurt as Tingyi, the Chinese food and beverage company, was a drag. Tingyi's share price fell after the company delivered weak Q3 results and management announced a strategic shift to favor market share gains over profitability amid increased competitive pressure. We exited the position as a result. Within Energy, Oil Search and CNOOC underperformed following strong performance in prior quarters amid the sharp decline in oil prices during the quarter.

From a regional perspective, Emerging Asia was a notable contributor to relative performance, boosted by the India overweighting and stock selection coupled with the Indonesia overweighting and Korea underweighting. Conversely, Latin America detracted, dragged down by Mexico and Brazil stock selection coupled with the Mexico overweighting.

#### Top 10 Holdings as of 31.12.2018

<i>Company Name</i>	<i>% of Fund</i>
Tencent Holdings Limited	6.3%
Taiwan Semiconductor Manufacturing Company, Ltd.	5.9%
Alibaba Group Holding Limited	5.8%
Ping An Insurance (Group) Company of China, Ltd.	2.6%
Itau Unibanco Holding S.A.	2.6%
Samsung Electronics Co., Ltd.	2.4%
Naspers Limited	2.3%
PT Bank Rakyat Indonesia (Persero) Tbk	2.2%
HDFC Bank Limited	2.1%
Credicorp Ltd.	2.1%
<b>Total of Top 10</b>	<b>34.3%</b>

During the fourth quarter, Financials exposure was increased through new purchases of Brazilian insurer BB Seguridade Participacoes and Taiwanese bank E.Sun Financial Holding. We believe BB Seguridade is well positioned to deliver robust top line growth thanks to the improved economic backdrop in Brazil and company initiatives. It should also benefit from higher interest rates and lower corporate taxes. E.Sun Financial Holding is a high-quality employee-owned bank led by a seasoned management team with a track record of value creation. The company's strong SME franchise and superior customer service should continue to drive consistent market share gains while allowing E.Sun to maintain industry leading profitability and asset quality metrics. Information Technology exposure was reduced during the period primarily through position trims. Exposure to Health Care also declined as a result of the sale of CSPC Pharmaceutical Group, amid concerns over Chinese government initiatives to reduce drug prices. From a geographic perspective, notable adjustments were increases to Brazil and India, offset by decreases to China and South Korea.

## 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-U.K. IMI declined 13.68% and the MSCI U.K. 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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Further specific risks may arise in relation to specific investments and you should review the risk factors very carefully before investing. Intended risk profile of the Fund may change overtime. The Fund is designed for long-term investors. The most current month-end performance information is available on [sicav.williamblair.com](http://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 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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