Fund Manager Commentary
William Blair SICAV Dynamic Diversified Allocation Fund

Performance Summary

The Dynamic Diversified Allocation Fund completed the quarter with positive performance, with both aggregate market and currency exposures adding value. Within markets, the portfolio benefitted from relative exposures within emerging equities and sector positioning within U.S. equity. Negative contributors to performance in the market strategy were long exposures to Europe and Singapore equities. Within currencies, long exposure to the Turkish lira and Indian rupee added value, while long exposures in the Mexican peso and Colombian peso and short exposure in the Indonesian rupiah detracted.

Fund Positioning

Market strategy remains long of equities, with an effective exposure of +16%, with net exposure being reduced slightly during the quarter. The Fund's largest risk exposures remain in developed Europe, U.K., and emerging equities. Market strategy is short of fixed income with a net exposure of -8%, with short exposure primarily in European government bonds.

Within currencies, the Fund remains long of emerging 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.

Fund 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

Fund Exposures (%) as of 12/31/18

Equity	**24.0**
Europe (ex-U.K.)	3.6
U.K.	2.5
Asia Developed	2.1
U.S.	4.9
Canada	-2.8
Emerging	13.7
Fixed Income	**12.8**
Developed (ex-U.S.)[1]	2.3
U.S.[1]	8.5
Emerging	2.0
Unencumbered Cash[2]	**23.0**
Credit Detail	
European Investment Grade Spread	3.5
European High Yield Spread	0.0
U.S. Investment Grade Spread	5.4
U.S. High Yield Spread	0.7
Active Currency	
Euro (EUR)	-5.0
Switzerland Franc (CHF)	-7.6
Great Britain Pound (GBP)	2.5
Other Europe	1.3
Australia Dollar (AUD)	-3.4
New Zealand Dollar (NZD)	-5.9
U.S. Dollar (USD)	-7.9
Canada Dollar (CAD)	0.0
Other Americas	9.7
Japan Yen (JPY)	5.1
China Yuan (CNY)	-2.5
Asia (ex-JPY and CNY)	1.9
Other	11.8

Select Exposures[3]	
Turkish Lira (TRY)	8.5
Philippines Peso (PHP)	9.0
India Rupee (INR)	7.1

[1] Reflected as 10-year exposures
[2] Unencumbered cash is residual cash and equivalents.
[3] Additional currency exposures by largest expected contribution to portfolio risk.

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

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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.

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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.

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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