2Q 2019

Fund Manager Commentary
William Blair SICAV Emerging Markets Growth Fund

Fund Performance & Positioning

The William Blair SICAV Emerging Markets Growth Fund outperformed its benchmark, the MSCI Emerging Markets IMI Index (net), during the second quarter.

Second quarter outperformance versus the Index was driven by a combination of allocation and stock selection effects. Above average stock selection within the Financials and Industrials sectors, combined with the overweighting to Financials, contributed to relative returns. Within the Financials sector, Bajaj Finance Ltd boosted relative performance. The share price of the Indian non-bank consumer lending company was propelled by impressive 4QFY19 results, with 57% YoY earnings growth driven by strong loan growth and an increased ROE. These strong results despite the challenging backdrop highlight the company's structural competitive advantages and leading execution. Localiza Rent a Car SA aided relative results in the Industrials sector. The share price of the Brazilian rental car company strengthened due to the company's robust operating performance and positive growth outlook amid an improved macro backdrop in Brazil, continued industry consolidation, and efficiency gains.

Partially offsetting these effects was negative stock selection within the Energy and Materials sectors. Within Energy, Reliance Industries detracted from relative returns. The company is the Indian private conglomerate that has transformed itself from an asset heavy cyclical energy company into a more diversified, consumer-oriented business with significant scale and an expanding market opportunity. After a strong rally in prior months, the stock corrected during the quarter amid investor concerns over softer downstream margins and increased competitive pressure in the telecommunication segment. Within the Materials sector, Asian Paints, the Indian decorative paint company, declined due to disappointing operating results on slowing volume growth and cautious management outlook. Despite the near term weakness, we believe the longer term growth opportunity remains well underpinned.

Top 10 Holdings as of 30.06.2019

Company Name	***% of Fund***
Alibaba Group Holding Limited	6.2%
Tencent Holdings Limited	4.5%
Ping An Insurance (Group) Company of China, Ltd.	3.7%
HDFC Bank Limited	3.4%
China Merchants Bank Co., Ltd.	2.4%
Reliance Industries Limited	2.2%
Taiwan Semiconductor Manufacturing Company, Ltd.	2.2%
Housing Development Finance Corporation Limited	2.1%
Naspers Limited	2.1%
Bajaj Finance Ltd.	2.1%
Total of Top 10	**30.9%**

Partially offsetting these effects was the underweight allocation to the Information Technology sector, coupled with negative stock selection within the Energy and Real Estate sectors. Within Energy, the lack of exposure to Russian Energy and the position in Reliance Industries hampered relative results as the stock pared gains from prior quarters. Multiplan Empreendimentos, a premier mall operator in Brazil, within the Real Estate sector, was a drag amid weaker 1Q19 results driven by higher than expected financial expenses and slower operational momentum.

During the second quarter, Consumer Staples exposure was reduced through the liquidations of President Chain Store and Britannia Industries. President Chain Store, Taiwan's largest convenient store operator, was sold amid increased cost pressure from a minimum wage hike in Taiwan and lower growth momentum in ecommerce delivery fees. Britannia Industries, the leading biscuit company in India, was liquidated due to softer growth and a subdued near term demand outlook. Industrials exposure was also reduced to an underweight position during the period. Within Industrials we exited China Communications Services amid increased margin pressure. These reductions were offset primarily by increases to Energy and Consumer Discretionary. Reliance Industries was bought during the period. We believe the market underappreciates the company's transformation from a cyclical, capex-oriented energy franchise to a diversified, consumer-oriented business, and also its scale advantage and monetization opportunity. We believe Reliance Industries is well positioned to deliver robust earnings growth, driven by its telecommunication and retail operations through a combination of TAM expansion and market share gains. Within Consumer Discretionary, Mercadolibre of Argentina was purchased during the quarter. The leading online ecommerce and trading company in Latin America boasts a strong management team, solid execution and attractive growth opportunity in ecommerce and mobile payments. From a geographic perspective, notable adjustments were increases to India and Argentina, offset by decreases to China.

Market Review & Outlook

Global equities posted strong results for the first half of 2019 despite signals of decelerating global growth and mounting uncertainty surrounding trade relations between the U.S. and China. Gains across most markets were primarily driven by the more accommodative tone out of major central banks. From a geopolitical perspective, the prospect of a trade deal between the U.S. and China which fueled equity markets to start the year quickly soured in the month of May following news that the U.S. would increase tariffs from 10% to 25% on nearly half the goods purchased from China (roughly $200 billion U.S. dollars). Despite the unexpected volatility in May, equities rebounded in June to close out a strong first six months of the year with the MSCI ACWI Investable Market Index (IMI) up 16.07% year-to-date.

U.S. equities rallied in the first half of 2019 (+18.42%) after the large selloff in 4Q18. Growth in the U.S. remained solid but started to decelerate off of last year's previous highs. The Federal Reserve's acknowledgment of slower economic growth and dovish stance on interest rates helped ease investor sentiment and boosted returns across sectors, especially cyclically-oriented sectors such as Information Technology, Industrials and Consumer Discretionary.

European equities also advanced despite signs of significant deceleration in manufacturing growth. Specifically, purchasing manager surveys continued to point to deceleration in the pace of industrial orders growth and subsequent industrial production growth in the Euro Area. This was especially evident in Germany where manufacturing growth has been shrinking and business sentiment has weakened over the past year. As European sovereign 10-year bonds yields hit record lows in June, the European Central Bank announced that further monetary stimulus to boost inflation was ready if needed. The MSCI Europe ex U.K. IMI advanced 5.64% for the quarter and 16.74% year-to-date in U.S. dollar terms.

Ambiguity surrounding Brexit continued to weigh on the economic conditions within the U.K. Equities felt some relief to start the year after the U.K. was granted an extension from the European Union to delay the Brexit process past the March 29 deadline. But political woes returned following the failed final bid to get a deal through parliament and the subsequent resignation of Prime Minister Theresa May. While the Conservative Party began the process of selecting its new leader, who will also become Prime Minister, political uncertainty drove Sterling weakness amid increased expectations of a disorderly Brexit on October 30. The MSCI U.K. IMI advanced modestly for the quarter (+0.74%), but was up 13.16% year-to-date in U.S. dollar terms.

Equity performance across Emerging Market countries was mixed year-to-date. China equities declined 4.11% in the second quarter amid the trade war re-escalation and lower expectations regarding the level of government stimulus measures. Despite this correction, Chinese shares (including Hong Kong and New York-listed companies) were up 12.73% for the six-month period, while China's mainland-listed securities (A-shares) advanced 28.28%. Higher crude prices contributed to strong equity market gains across oil exporting countries such as Russia (+30.70%) and Brazil (+16.39%), but negatively impacted oil importing countries such as India (+6.43%) and Indonesia (+6.88%) year-to-date.

The global growth environment appears to be stabilizing after a period of deceleration in economic activity over the past year. Among the higher frequency data that we monitor, we have been encouraged by recent stabilization in the orders minus inventories component of manufacturing PMIs in the U.S., Euro Area, U.K. and Japan, signaling a rebound in industrial production volumes.

Looking forward to the second half of the year, we see geopolitical risks to economic activity abating: U.S.-China trade talks are back on, European Parliamentary elections are behind us, and the recently announced key European appointments (European Central Bank and European Commission presidents) suggest a better policy mix going forward.

The recent moderation in U.S.-China tariff threats is particularly important, as the escalation in hostilities and uncertainty about a potential trade deal weighed on industrial activity and order flows in the first half of 2019. At the same time, we saw signs of a bottoming in activity even before the announced truce in Osaka—notably that sales of semiconductors had troughed. This is an increasingly valuable indicator of near-term economic momentum. While the industry has consolidated and matured, semiconductors are used increasingly widely in almost all areas of industrial manufacturing and production.

Bond market investors are suggesting a different verdict on the global economy, however. The dichotomy of views expressed by equities and fixed income investors is best encapsulated by the decoupling of economic growth (equities) and inflation (bonds). Specifically, U.S. inflation continues to edge lower (1.6% YoY), even as the U.S. economy enters its 10th year of expansion. The situation is broadly repeated across many developed economies. It is little surprise then that the U.S. Federal Reserve feels compelled to lower rates.

From a corporate earnings perspective, net income growth appears to be bottoming in the Euro Area, the U.K., Japan and China after an 18 month period of steady deceleration. U.S. earnings growth has recently stabilized at 19% after weakening from 27% in December 2018, although consensus growth estimates for the next 12 months are significantly lower at 6%. This discrepancy in actual versus future growth expectations starkly contrasts with non-U.S. markets, where forward expectations are more in line with current growth rates, reflecting the shrinking economic growth wedge that has favored the U.S.

Equity valuations have stabilized and are broadly similar across different geographic regions following the sizable de-rating that occurred during the fourth quarter 2018 market selloff. Price/Earnings multiples in the U.S. and Euro Area are roughly in line with their respective ten year averages, while China is trading modestly below its ten year average multiple.

Although positioning changes by sector and geography varied across our funds during the first half of the year, there were some broadly consistent themes reflecting the market environment and company fundamentals. From a sector perspective, IT and Industrials weightings were generally higher due to our active repositioning into relatively attractive areas like software, payments and machinery. From a country perspective, exposures to China and India were incrementally increased across most funds, while Japan weightings were reduced in our global/non-U.S. funds.

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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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