William Blair

Fund Manager Commentary
William Blair SICAV Dynamic Diversified Allocation Fund

Performance Summary

The SICAV Dynamic Diversified Allocation Fund completed the quarter with positive performance, with market exposures, currency exposures, and security selection all contributing. Within markets, the portfolio benefitted from long exposures to U.S., Singapore and global equities. Negative contributors to performance in the market strategy were short exposures to Canada and Japan equities. Within currencies, long exposure to the Philippine peso and Turkish lira added value, while short exposure in the Thai baht and Swiss franc detracted. Security selection contributed, driven primarily by International Leaders and Emerging Markets Growth.

Fund Positioning

Market strategy remains long of equities, with effective exposure of +28%. The strategy remains long of U.S., developed Europe, U.K., and emerging equities. Market strategy is modestly long of fixed income with a net exposure of +16 %.

Within currencies, strategy remains long of currencies such as the Philippine peso, Indian rupee and Turkish lira, with the largest short positions in the Thai baht, Swiss franc, and New Zealand dollar.

Fund Review and Outlook

The beginning of the second quarter saw global equity markets retaining the buoyancy they had exhibited throughout the first quarter. In some cases—the U.S., Canada, Australia, Switzerland—country indices reached new highs. In May, however, most equity prices suffered renewed declines, some of which were quite steep, but the downside was smaller than that seen in the final months of 2018, and the weakness more short-lived. In June, most markets rallied again. For the quarter, the return of the MSCI All Countries World Index (hedged into USD) was 3.4%. Emerging markets were, in aggregate, weaker, and in the

Fund Exposures (%) as of 30.06.19

Equity	**27.9**
Europe (ex-U.K.)	7.0%
U.K.	3.0%
Asia Developed	4.6%
U.S.	4.9%
Canada	-2.7%
Emerging	11.1%
Fixed Income	**15.7**
1Developed (ex-U.S.)[1]	-1.3
U.S.[1]	15.0
Emerging	2.0
Unencumbered Cash[2]	**22.9**
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	0.6%
Active Currency	
Euro (EUR)	-6.8%
Switzerland Franc (CHF)	-9.3%
Great Britain Pound (GBP)	0.0%
Other Europe	7.2%
Australia Dollar (AUD)	-5.1%
New Zealand Dollar (NZD)	-7.6%
U.S. Dollar (USD)	-8.1%
Canada Dollar (CAD)	0.0%
Other Americas	11.2%
Japan Yen (JPY)	5.1%
China Yuan (CNY)	-1.7%
Asia (ex-JPY and CNY)	5.2%
Other	9.9%

Select Exposures[3]	
Turkish Lira (TRY)	6.8
Philippines Peso (PHP)	11.0
India Rupee (INR)	6.8

[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.

developed markets, Japan underperformed both the U.S. and Europe. The strongest markets were Russia and Greece. Safe-haven government bond yields moved aggressively lower in May, driven by changing interest rate expectations, and several more European sovereign 10-year yields became negative, joining those of Germany, Switzerland, and Japan. Currencies exhibited low volatility, and most exchange rate movements were small; the British pound and New Zealand dollar were among the weakest, and most emerging market currencies performed better than the U.S. dollar, after taking into account interest rate carry.

We have observed for some time that a large part of the influence on equities, when they have been rising, has been central bank policy. This includes direct communication from monetary authorities about what they might do, as well as changes in market expectations ahead of such communication when investors collectively predict what central bank committees might do. More specifically, the perception that the Federal Reserve and the European Central Bank will continue to act to contain equity declines and fuel price recoveries has become pervasive. Linking the developments in equities and bonds in the last three months reveals as much, and repeats a pattern very similar to what happened in the fourth quarter of 2018 and the first three months of this year. As stocks fall—as they did in May, and also last October-December—interest rate markets sharply revise downward monetary expectations, changing them from expected rate increases, to no changes, to cuts, and to longer periods at low or negative levels. In both recent episodes, this adjustment has mostly happened before central bank spokespeople have commented. Subsequently, more dovish (than before) statements from Fed Chairman Powell and ECB President Draghi confirm these changed expectations—anchoring them at lower levels, after which equities rebounded.

We have opined that such apparent "ceding of control" of policy to market sentiment is not a good thing, even though it has ostensibly been effective if its aim was indeed to underwrite stock markets. What appears to have developed is that the "cycle" outlined previously has recurred with increasing frequency; the May 2019 market downturn produced a response from central banks (ratifying more dovish monetary assessments) after less time and after a smaller price decline than the downturn seen at the end of 2018. In this sense, it is less of an issue in our eyes that central banks can support markets, than that they are *having* to do so at more frequent intervals. While we find some equity markets fundamentally attractive (several in Europe and developed Asia-Pacific, also Brazil, India, Vietnam), we remain reluctant to assume significant aggregate long equity exposure in portfolios because, overall, our analysis leads us to expect relatively meager equity returns and largely unpredictable negative shocks to the downside that seem to increasingly depend on additional ratchets in expectations toward ever greater monetary accommodation, and which likely require major central banks to confirm the same.

Furthermore, global economic activity is slowing and has been doing so for more than a year, which is reflected in industrial Purchasing Managers' Index reports across the world. Such indicators are consistent with almost flat growth (no expansion) on an aggregate basis. While this data provides justification for easier monetary expectations (justification other than just market price weakness), it delivers a significantly less inducing backdrop to repeated equity recoveries.

In the current environment, we have continued our stance of carrying low total equity exposure (systematic "beta"), and employing linear option replication as a means of navigating what we've discussed previously. The latter aspect of this stance (linear option replication) resulted in methodically selling equity exposure in May, in response to weakness, and then making a repurchase (of some of this) in June. The performance effect is desired to be similar to owning put option "protection" on equities—cushioning the volatility of portfolio performance relative to market volatility by reducing downside capture but then re-engaging with upside.

Contrastingly, we have looked to increase risk exposure to areas of our investment universe where we believe that opportunities are not exposed to systematic risk, and this has mostly involved our currency strategy. Just prior to the start of the quarter we made some changes that increased long exposures in the Norwegian krone and Singapore dollar, and oppositely increased short exposure in the Swiss franc, euro, and New Zealand dollar. In April, we further widened long positions in the Colombian and Philippine peso, offset by larger negative exposure to the Australian dollar and Thai baht. By having some balance of both long and short exposures to emerging currencies (and by implication both long and short developed currencies too), the strategy guards against a dominating emerging/developed factor that can become more sensitive to systematic risk. Generally, we remain long emerging currencies and short developed currencies, but recent strategy changes have not been in this direction. Also, the breadth and diversification of the currency universe, and a general absence of net correlation with global equities as far as emerging versus developed currency is concerned, has been manifest in 2019.

Lastly, we continue to navigate idiosyncratic opportunities and risks. Brazil has for some time been our largest single equity position (not that it is inappropriately large in an absolute sense). Beyond valuation, our optimism on Brazil stems from a gradual but material improvement in regulatory direction that has unfolded over recent years. A current policy initiative to reduce the public finance burden of pension provision, that previous governments had been unsuccessful in implementing, appears significantly more probable under the current administration. We reduced this position in early May when political developments introduced greater doubt as to the progress of this reform, but re-established it the same month as its passage got back on track.

In the U.K., for the second time in 2019, we cut our long exposure (to flat) to the British pound (GBP) because of the politics around Brexit, U.K.'s departure from the European Union. We had flattened our GBP exposure in March ahead of what was then the deadline for "deal or no deal" (no deal referring to the more damaging severing of trade links between the two if the U.K. legislature failed to ratify a draft agreement), but we restored it after the deadline got extended. However in May, repeated inability to secure this ratification led to U.K. Prime Minister Theresa May resigning. Her replacement is likely to be more tolerant of "no deal" that, we concluded, once again increased the adverse risk to the GBP. We also bought U.K. fixed income as part of this navigation, since a disorderly Brexit would likely put downward pressure on yields. Our base case is not for the U.K. to leave without any withdrawal agreement, but we think the risk of this is higher than is priced into market expectations.

We also slightly re-increased our long position in Turkish lira (TRY), which is the most deeply undervalued currency in which we have a position. We have been cautious in responding to this valuation opportunity for a number of reasons, many of which remain as headwinds. The primary adverse headwind to the TRY has been President Erdogan's accumulation of executive power, which has degraded the market-beneficial influence of Turkey's institutions (central bank, judiciary, media, and political opposition parties) over time. In this area, developments took a more positive/less negative turn with the election of the mayor in Istanbul on 23 June; the election was originally held in March and resulted in a narrow win for the opposition (to Turkey's ruling party) candidate, but Turkey's electoral authority (believed to be under the influence of President Erdogan) annulled the vote and ordered it to be repeated in June. The repeat election was a landslide win for the opposition that President Erdogan conceded on behalf of his party. We believe that this result indicates that there is more of a check on President Erdogan's power than was previously apparent with the implication that Mr. Erdogan may, all else equal, be less able to influence Turkey's democratic institutions going forward.

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 only take compensated risk 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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