William Blair

Second Quarter 2020

William Blair SICAV Global Leaders Fund
Summary and Outlook

Market Review

Global equities rebounded strongly and market volatility moderated in the second quarter as the MSCI ACWI IMI advanced 19.83%—recovering a significant portion of the pandemic-induced selloff during March. While concerns over the economic impact of the coronavirus remain, investors were encouraged by the massive stimulus measures from governments and central banks. Significant monetary and fiscal responses coupled with the gradual resumption of business activity led to a broad equity rally across both developed and emerging markets.

U.S. equities strengthened during the second quarter (MSCI USA IMI +22.10%) despite the precipitous decline in economic activity, which included a significant rise in unemployment claims. The U.S. unemployment rate reached a record high in April of 14.7% before falling back to 11.1% as of June 30 amid the gradual reopening of businesses across the country. Despite the extraordinary amount of monetary firepower unleashed by the Fed, Chairman Powell maintained his commitment not to follow the path of other central banks and introduce negative policy rates.

European equities advanced during the quarter (MSCI Europe ex-UK IMI +18.45%) with major countries indicating progress towards lowering the rate of new coronavirus infections. German equities surged (+26.75%) on the announcement from Chancellor Angela Merkel that efforts were being made to inject a second stimulus package into the economy. Autos and other manufacturers rallied on the news. Across other primary developed markets, the UK (+8.77%) and Japan (+11.82%) were notable laggards during the quarter.

Emerging markets rebounded in the second quarter (MSCI EM IMI +18.93%), driven by strength in South Africa (+26.78%), Brazil (+23.83%) and Taiwan (+23.38%). After depreciating significantly in the first quarter, emerging market currencies such as the South African Rand and the Mexican Peso stabilized in the second quarter. China underperformed on a relative basis (+15.22%) amid a reescalation of political tensions with the U.S., as the Senate passed legislation that would potentially ban Chinese companies from listing on American exchanges.

Performance

Outperformance by the William Blair SICAV Global Leaders Fund versus its benchmark, the MSCI ACWI IMI Index (net), during the second quarter was primarily driven by positive stock selection across most sectors. The Industrials, Information Technology, and Communication Services sectors were the most notable sources of relative return. Within Industrials, Nihon M&A Center propelled relative performance as the company's pipeline of deals and capacity to manage them has continued to expand. Nihon M&A Center is a high-quality Japanese growth company that provides advisory services to small and medium sized businesses facing succession-oriented challenges, which is common given Japan's aging demographics.

Top 10 Holdings as of 6/30/20

Company Name	*% of Fund*
Amazon.com, Inc.	4.5%
Alphabet Inc.	3.3%
Tencent Holdings Ltd.	2.8%
Alibaba Group Holding Limited	2.7%
Facebook, Inc.	2.7%
Mastercard Incorporated	2.7%
Salesforce.com Inc.	2.4%
Taiwan Semiconductor	2.4%
Adobe Inc.	2.2%
PayPal Holdings Inc.	2.1%
Total Top 10	**27.8%**

It is led by an entrepreneurial management team that has built an attractive network of national relationships aimed at identifying buyers and sellers and sourcing transactions, and the growth outlook remains robust. PayPal Holdings, a leader in digital payments within Information Technology, was an additional source of outperformance. While first quarter results were softer than expected due to COVID-19 related impacts in March, strong acceleration in volume and revenue growth returned in April. PayPal's global two-sided network creates a superior competitive position online. An attractive value proposition delivers quick, easy, and secure checkout for consumers, and meaningfully higher conversation rates and lower fraud risks for merchants, resulting in pricing power. Within the Communication Services, Facebook contributed to relative results. Revenue remained near all-time highs in absolute dollars despite the steep drop off in ad demand in March due to the COVID-19 pandemic. Heightened engagement on the platform continues and underlying, incremental profitability remains healthy.

Partially offsetting these effects was negative stock selection within the Consumer Discretionary and Utilities sectors coupled with an underweight to the Materials sector. Within Consumer Discretionary, Compass Group weighed on relative returns. Compass is the global leader in outsourced foodservice and other support services to private businesses, schools and colleges, hospitals, and in remote environments. It is benefiting from the ongoing trend toward outsourcing foodservice and hospitality services globally. Given the COVID-19 pandemic, the narrative around contract caterers is fairly negative due to work from home dynamics, social distancing, and a challenging macro backdrop.

However, as volumes recover and people gain comfort that the business model remains intact, we expect the stock will reflect the long-term earnings power of the business. Current estimates do not account for an acceleration of market share gains as business may shift away from competitors with weaker offerings, the demand for outsourcing likely increasing due to health and safety concerns, or any upside from M&A, which we anticipate the company will take an active role in. NextEra Energy, within the Utilities sector, reported better-than-expected first quarter results but failed to keep up with the broad market. NextEra operates the largest renewables fleet in the U.S. and is among the largest operators of wind farms in the world. We believe it is among the best run and highest growth utility companies in the industry. We continue to see this type of integrated utility with growth exposure as advantaged in 2020 vs purely regulated, yield-oriented peers.

Positioning

During the second quarter Information Technology exposure was increased through the purchases of Workday, Adyen, and Atlassian. Workday is a leader in cloud software solutions. Initially the company focused on its human capital management offering, but has now broadened its reach with a focus on the financials part of cloud which has a total addressable market twice as large as the human capital management business. Once this unique architecture shift to the cloud is exploited with a product that can be constantly updated, companies are less likely to switch vendors of such embedded back-office software. Over 45% of customers make add-on purchases within one year of going live. At least half of the human capital management business market and three-quarters of the Financials market has yet to shift to cloud applications, providing an opportunity to disrupt incumbencies and produces strong growth.

Adyen is an innovative global payment service provider with focus on large merchant online payments and is well positioned to benefit from the accelerating shift to online due to its best-in-class technology and product differentiation, and is investing to drive share gains and support long-term growth and innovation. Atlassian is a software company that produces tools to help developers, IT service professionals, and others track issues and projects, and collaborate more efficiently. These tools enable more efficient and faster digital transformation. Broadening growth and a diversified customer base support the durability and longer-term duration of its competitive advantage.

Health Care and Financials exposure was reduced during the period by trimming existing positions for better risk/reward opportunities. From a geographic perspective, notable adjustments were increases to Developed Europe, offset by decreases to Emerging Asia and the U.S. The portfolio's weighting in Emerging Markets approximated 11% at the end of the period, down modestly from 12% at the beginning of the period.

Outlook

Following the peak of the pandemic and related lock-down, economic activity accelerated strongly in June in China, Europe and the U.S., including both manufacturing and services. Our preferred supply side indicator—orders in excess of inventories— registered double-digit improvement in the Euro Area and is already back to positive territory in the U.S.

Crucially, a rebound in new orders drove the improvement. Unprecedented fiscal support efforts, combined with healthy corporate and household balance sheets at the start of the pandemic-induced recession, point to a continued strong sequential recovery, although we do not expect either GDP or corporate profits to recover to pre-pandemic levels this year.

China, Europe and the U.S. followed somewhat different approaches to containing the spread of the virus. These differences may impact the recovery trajectory and speed in each of these major global demand centers, with the U.S. lagging and likely to continue to fall behind given the resurgence of cases.

The market recovery we have seen has been driven by liquidity. Major central banks acted early and decisively, such that periods of funding stress typical in acute and sudden recession were fleeting. Domestic financial conditions are normalizing rapidly and both the U.S. Fed and Europe's ECB have assured the markets that they will remain committed to eliminating pockets of funding stress wherever necessary. In China, the PBoC has aggressively increased liquidity provisions, such that the total credit impulse in the economy is now among the strongest we have seen in a decade. Importantly, funding conditions remain adequate for the vast majority of Emerging Market economies, supported by ample dollar liquidity and lower oil prices.

From a corporate performance perspective, new economy digital business models proved more defensive and more resilient amid the pandemic-induced collapse in economic activity. While the majority of S&P 500 companies saw year-on-year revenue declines in excess of 10%, the fastest growers clocked in double digit gains. This widening performance differential is particularly interesting to us as investors in industry leading growth companies.

While valuation multiples appear inflated due to depressed earnings, this is largely consistent with historical recovery environments. Looking forward, however, successful containment of the virus, combined with improving prospects for an effective vaccine, are likely to pave the way for a broadening of market leadership to include more traditional cyclical companies as their earnings begin to stabilize and reaccelerate. This will be the ultimate catalyst to see a style reversal in the market, where the valuation differentials of high growth companies relative to all others will likely compress. We are monitoring this closely.

Given that backdrop and this period of high uncertainty, we are focused on understanding the durability of the competitive advantage of those "digital winners", trying to understand the nature of the acceleration of their growth; and how much of that future success is priced into the stocks. Electronic payments are a key focus area in that context.

On the other hand, we are also interested in some of the more compelling structural growth companies in cyclical industries who have been particularly impacted by the economic slowdown. While there may be limited visibility in sight, many of these stocks remain quite depressed and may represent a significant valuation as well as growth opportunity when activity normalizes. Air travel and aerospace manufacturing companies are good examples.

Some additional detail on electronic payments and aerospace opportunities are summarized below.

Electronic Payments

The adoption of digital, electronic and cashless payments is not a new story. It has been a decades-long phenomena, pre-dating e-commerce. But online shopping has been a massive catalyst, as have mobile penetration, availability of better and easier payment solutions, and evolving consumer habits/preference. Not to mention cleanliness. All of which were in place long before COVID-19. Perhaps not surprisingly, we have material exposure to the payments industry, both direct and indirect, in most of our investment strategies.

Prior to this year, electronic payments growth and penetration had been steadily increasing, growing ~2x GDP in many major economies, including North America. McKinsey calculates that mobile transactions in China grew at a +123% CAGR from '13-'18. During the pandemic-related closures, both consumers and merchants have increasingly adopted digital payments as they adjust to the realities of this new world. Mastercard reported "card-not-present" transactions as a percentage of total volumes in April moving from 40% last year to 50% this year. Visa reported that similar transactions were up +1200 bps in April as well.

Interestingly, Paypal said there has not been a decline from elevated levels as economies have re-opened, and they have also observed new demographics moving online. Worldline believes that COVID-19 is a "true accelerator" of cashless trends.

We have observed an acceleration in lower penetration categories (think of grocery, pharmacy, furniture, etc.); not to mention emergence of newer areas of the digital economy like education, healthcare, food delivery, gaming, and digital media. And the consumer experience is proving to be a positive one.

Payment practices have historically proven to be sticky, so we believe this step change will create a new baseline. In fact, we believe the electronic payments penetration growth story has accelerated by up to 3 or 4 years. We expect card payments growth could increase by an additional 100 bps/yr. While these stocks have performed well in the face of altered consumer behavior, we think this industry is the beneficiary of accelerating structural growth, and they remain compelling.

Aerospace

Many of our portfolios have material exposure to the commercial aerospace industry because we think consumer demand, company (and product) quality, and industry structure have converged to be a very compelling long-term investment opportunity. There is certainly less cyclicality to their sales and profits now than in previous decades.

Technological breakthroughs have changed the return profiles for the aerospace component manufactures materially. The last 20 years have seen an industry transformation: planes now run much more efficiently and longer, not to mention more safely; and consolidation of the industry has also helped profit growth. Many parts makers have shifted to consumption-based business models, and combined with lower competition and disruption, make for highly visible cash flows.

On the demand side, growth of air travel has been an inexorable trend for decades. We still see very low penetration of air travel in most of the higher growth parts of the world, and aspirational consumption of travel is very real.

Thus demand has steadily risen, while the cost per seat mile has declined in similar fashion. There remains a massive total addressable market (TAM) opportunity.

This growth has clearly been disrupted by the pandemic, with global air traffic during the second quarter bottoming at just 10-15% of the January 2020 level. We have observed this to be coincident with pandemic-related death rates.

Since then, China domestic travel has now recovered to 80% of prior peak levels, and Europe is likely to be there my mid-July. The U.S. probably has more near-term uncertainty, but even Southwest Airlines has been planning for resuming 100% of its capacity by year end. There is some visibility into schedules and we believe that during the third quarter, global air traffic will be back to 40-50% of pre-existing capacity.

That is the near-term story, and it won't make that much of a difference to the industry's financials or likely the stocks. We are focused here on the intermediate to long term. Importantly, the airlines around the world have not experienced many bankruptcies. They are better run, and in many cases have received government support, so we believe the risk to the manufacturers' customer base is low.

Thus, with some volatility expected, we believe the aerospace industry will recover back to pre-COVID levels by 2022. These stocks, however remain ~40-60% below their pre-COVID levels.

Final thoughts

In this confusing period, visibility of growth is being bid up, while uncertainty is being punished. In reality, the actual stock risk/reward may be better where it is less visible, as we believe is the case here. Twelve months from now, we would expect either the gap in actual growth, or the gap in visibility of growth, to narrow. This presents a very compelling opportunity.

As growth investors, the critical point of these two examples is that we strive to strike a balance between different types of growth in the portfolios such that we can deliver consistent performance through different economic backdrops and market environments.

Finally, on top of the COVID-19 crisis, the killing of George Floyd (and others) and the resultant

Black Lives Matter movement have sparked some real attention in our society to the difficulties of being a minority in America. They have also brought to light the realities that a number of our work colleagues are confronted with, which may be very different than the experiences most of us enjoy.

Within William Blair Investment Management, we have had an increased focus on attracting a diverse set of perspectives into our organization for the last several years, while also striving for a culture of inclusion.

This is critical to the long term sustainability of our business—making sure we are building a team consisting of the best and the brightest, and creating a workplace and a culture that allows those different perspectives and voices to thrive.

We are reminded that this has been an essential element of our success, and will increasingly be a focus for our organization moving forward.

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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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