William Blair

Third Quarter 2020

# William Blair SICAV Emerging Markets Leaders Fund Summary and Outlook

## Market Review

Global equities continued to surge in the third quarter driven by strong performance across most regions (the MSCI ACWI IMI advanced 8.11%). Signs of continuing economic recovery coupled with the prospect of an accelerated timeframe for the COVID-19 vaccine bolstered investor sentiment.

US equities continued to lead developed markets, posting another strong return for the quarter (+9.10%). Investors were encouraged by better than expected economic data, suggesting that the economic recovery was gaining strength. Optimism surrounding an additional fiscal stimulus package ahead of the U.S. presidential election also supported sentiment, although no deal had been reached as of quarter end. Commentary out of the Federal Reserve remained dovish with the announcement that the central bank would maintain low interest rates for years, targeting an “average of 2% inflation”.

Among non-US developed markets, Japan outperformed during the quarter, advancing +7.37% in USD terms despite the abrupt resignation of long serving Prime Minister Shinzo Abe in late August over long-standing health issues. Financial markets appeared to be reassured by the election of Abe’s long serving key deputy, Yoshihide Suga, as Japan’s next premier. As Chief Cabinet Secretary, Suga was a key architect of the popular economic reform strategy known as Abenomics, and there is hope that he will push forward with structural reforms including administrative and digital reforms.

European equities advanced +5.29% for the quarter in USD terms, mostly attributable to positive currency effects as the Euro strengthened. Local market returns were weighed down by concerns about a resurgence in coronavirus infections and restrictions derailing the EU’s fragile economic recovery. The Eurozone service industry PMI declined from 50.5 in August to 47.6 in September—significantly worse than economists’ forecasts, with particular weakness in France.

Emerging markets modestly outpaced developed markets driven by strength in India (+15.87%), Taiwan (+14.75%), Korea (+14.56%), and China (+12.44%). Conversely, Brazil (-2.63%) and Chile (-4.27%) underperformed primarily due to currency headwinds (-0.05% and -8.10% in local terms respectively).

From a global sector perspective, investors’ appetite for riskier assets continue to drive performance differences across sectors. Growth sectors such as Consumer Discretionary (+17.61%) and Information Technology outperformed (12.29%), while defensive areas of the market underperformed on a relative basis due to weakness in Energy (-12.42%) and Financials (+1.31%).

## Top 10 Holdings as of 9/30/20

| *Company Name* | *% of Fund* |
|---|---|
| Alibaba Group Holding Limited | 7.9% |
| Taiwan Semiconductor Manufacturing Company Limited | 7.3% |
| Tencent Holdings, Ltd. | 6.7% |
| Reliance Industries Limited | 4.3% |
| Ping An Insurance (Group) Company of China, Ltd. | 3.4% |
| NetEase, Inc. | 3.3% |
| China Tourism Group Duty Free | 3.0% |
| MediaTek Inc. | 2.7% |
| Yandex N.V. | 2.5% |
| Shenzhou International Group | 2.2% |
| **Total Top 10** | **43.3%** |

## Performance

Third quarter outperformance by the William Blair SICAV Emerging Markets Leaders Fund versus its benchmark, the MSCI Emerging Markets Index (net), was primarily driven by positive stock selection across most sectors. The Communication Services, Energy and Information Technology sectors were the largest sources of relative return. Within Communication Services, Yandex NV boosted relative returns as the company continues to deliver on its growth strategy, which relies on its dominant position in search, allowing the company to fund new growth areas such as food delivery, ride-hailing, autonomous driving and media/entertainment. Yandex’s increasing market share in search and its accelerating shift to digital boosted investor sentiment during the quarter. Furthermore, the company’s announcement of the acquisition of TCS Group, the fastest-growing online bank in Russia, propelled the stock price. Within Energy, Reliance Industries, the Indian conglomerate that has transformed itself from an asset-heavy, cyclical energy company into a more diversified, consumer-oriented business with significant scale and expanding market opportunity, was an additional source of outperformance.

The robust stock performance was driven by strong growth in its digital services business as Reliance’s superior technology and lower cost advantages fuel sustained high growth at an incrementally higher level of profitability. Within the Information Technology sector, Taiwan Semiconductor Manufacturing (TSMC), the leading independent foundry, propelled relative results.

The company continued to demonstrate strong operating momentum, driven by the ramp up of 5G smartphones and solid PC related demand, as well as continued inventory building within the industry. Moreover, the stock was boosted by TSMC's increasingly strong competitive position and widening technology gap on leading edge processes, which has allowed it to capture business from Intel.

Partially offsetting these effects were the overweight allocation to the Communication Services sector coupled with below average stock selection within the Industrials sector. Rumo and Airports of Thailand hurt relative performance within Industrials. Rumo, the Brazilian railroad logistics operator, underperformed amid weak near term operating results and the announcement of an equity raise. However, we believe the strong growth outlook, predicated on increased grain production in Brazil, accelerating margins and volumes from current train and network improvements as well as network extensions, remains well underpinned. Airports of Thailand's operations have been heavily affected by Covid-19-related travel restrictions, however we believe the company will be a key beneficiary of growth in Thai air traffic once restrictions are lifted. The company's non-aerospace business also remains an attractive growth driver in the long-term.

## Positioning

During the quarter, Consumer Discretionary exposure was increased. Exposure to Information Technology also increased as a result of the purchase of Network International Holdings, the largest pan-regional provider of digital payment solutions in the Middle East and Africa. The company has a broad presence across the payments value chain and is in our view well positioned to benefit from attractive long-term macroeconomic and socioeconomic trends. These include the move from cash to digital payments in some of the most underpenetrated markets, the expanding payments market, and increased outsourcing by banks.

From a geographic perspective, notable adjustments were increases to India, through additions to the existing position in Reliance, and Thailand, via the purchase of Sea, the leading South East Asian mobile gaming and e-commerce company. The company's partnership with Tencent for distribution of its games in ASEAN, coupled with its success in self-developed games as well as its fast growing ecommerce platform, support our investment in the stock. These increases were offset by a decrease in Taiwan as we trimmed our position in TSMC.

## Outlook

The strength of the market since the depths of the initial pandemic outbreak has confounded many. We argued early in the second quarter that because the nature of this down cycle was unique in that it was a government-imposed economic lockdown, the ultimate re-opening would lead to a sequential acceleration of economic growth off the bottom that would be quite strong.

Businesses and institutions have been resuming, albeit unevenly, and central bank support continues to be accommodative to liquidity. The market has responded favorably to these factors.

So where to from here?

The backdrop remains highly uncertain, and the risks seem abundant:

- Uneven re-openings, both throughout the world and within the United States
- Re-acceleration of outbreaks
- COVID treatment and vaccination still not approved
- US stimulus package political debate
- And of course, the US Presidential election

While all of the above are material risks, we believe the overwhelming influence upon market performance will be the continued pace of economic recovery surprising to the upside.

The demand for consumer goods has proven to be expanding, and the supply side has not been able to close the gap. This should lead to continued strength in industrial activity, even in the absence of an expansion of COVID treatments or vaccines.

For the consumption side of the economy, which is still lagging dramatically behind previous levels, we point to an acceleration of testing solutions as a very likely means to identifying, isolating and controlling the spread of the disease such that we can continue to see a gradual normalization of activities.

The market's concern about these assumptions creates a healthy backdrop for our investments. In fact, the uncertainty of the recovery is likely to act as a buffer to the market overall as investors continue to climb a wall of worry. This combined with a very accommodative monetary policy backdrop, where Fed Chairman Powell has vowed to allow inflation to move above historic target levels before taking any tightening measures, results in a constructive backdrop for risk assets like growth equities.

**Market Leadership and Style**

This stock market recovery has been unique in that the leadership has been driven by the same types of companies that have led the market for several years: highly innovative "digital winners", those with high and persistent investment for future growth, and companies that have been able to scale at an unprecedented pace. This has fueled the performance of "Growth versus Value" and the ensuing debate around future equity investing style performance.

While these market leaders (Growth stocks) may have high current multiples (i.e., not equating to Value classification), their earnings power has proven to be undervalued. The market is still trying to reconcile the digital transformation of business models and the resulting scalability at higher than expected profit levels. Or, put differently, the durability of that growth and profit profile is underappreciated. The style performance differential therefore reflects a realization that the corporate performance gap is widening.

Thus we think the performance of Growth – especially in the low-growth environment that we have been experiencing – is logical. The following trends have favored Growth over Value:

1. Superior & consistently high profitability for Growth. R&D-driven innovation has been a key driver – and is likely to persist.
2. Higher future investment for Growth, driven by scarcity of growth – we don't see this changing in the near term.
3. Higher cost of debt and higher leverage for Value have favored Growth over Value, driven by low interest rates. Lower interest rates imply a lower risk premium for Value.

We will have much more to say on this topic in the coming months but suffice it to say we do not expect these growth tailwinds to subside anytime soon.

That being said, as is the case in most market recoveries, if we do experience the continued economic recovery that we expect in 2021, there will likely be periods where that broadening of growth will lead to a temporary transition or mean reversion favoring lower quality, lower growth equities. These will likely represent attractive buying opportunities for us.

**Growth for the 2020s**

During the summer we undertook a comprehensive exercise to predict important drivers of end market, industry and corporate profit growth over the next decade. As growth investors we are constantly assessing the future and incorporating our perspectives into our investment process. Forecasting and understanding major innovation developments and disruption trends is a key part of our investment process.

We looked back to our 2010 outlook to see what has transpired—both much more or much less than we had expected—and we learned one important lesson: forecasting is hard! Smartphones, social media, department stores, gaming and digital payments all had vastly different growth experiences than what was commonly expected in 2010.

But forecasting is necessary to create a framework for understanding the world and predicting the future in a highly systematic and iterative way in order to decrease the variability around predicted outcomes and hopefully improve forecast accuracy, and act upon them sooner and with greater conviction.

Perhaps because 2020 signifies the beginning of a new decade, or because we were working in this unusual setting, we undertook this exercise with more vigor and intensity than normal. The exercise was extremely fun, engaging and stimulating, and the results were interesting.

We believe three key themes will dominate the growth landscape over the next decade: digitization of everything; the continued sophistication of China Inc., and the convergence of technology across traditional industry lines.

I will leave it there for now, so as to not spoil all the details behind our research. You will be hearing much more from us in the coming weeks and months on this topic.

## IMPORTANT DISCLOSURES

Recipients of this document should be aware of the risks detailed in this paragraph. Please be advised that any return estimates or indications of past performance on this document are for information purposes only. Both past performance and yield may not be a reliable guide to future performance. The value of investments and income from them may fall as well as rise and investors may not get back the full amount invested. The value of shares and any income from them can increase or decrease. An investor may not get back the amount originally invested. Where investment is made in currencies other than the investor's base currency, the value of those investments, and any income from them, will be affected by movements in exchange rates. This effect could be unfavourable as well as favourable. Levels and bases for taxation may change.

Specific securities identified and described to do not represent all of the securities purchased or sold and you should not assume that investments in the securities identified and discussed were or will be profitable. Holdings are subject to change at any time. References to specific securities and their issuers are for illustrative purposes only and are not intended and should not be interpreted as investment advice, offer or a recommendation to buy or sell any particular security or product.

Any discussion of particular topics is not meant to be complete, accurate, comprehensive or up-to-date and may be subject to change. Factual information has been taken from sources we believe to be reliable, but its accuracy, completeness or interpretation cannot be guaranteed. Information and opinions expressed are those of the author and may not reflect the opinions of other investment teams within William Blair. Information is current as of the date appearing in this material only and subject to change without notice.

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.

This is a marketing document and does not contain personalized recommendations or advice. Recipients of this document should make their own investment decisions based upon the Fund Documents listed above (which can be obtained free of charge) and in accordance with their own financial objectives and financial resources and, if in any doubt, should seek advice from independent professional advice as to risks and consequences of any investment .

William Blair makes no representations that this website or any contents contained on it are appropriate or available for use in any jurisdiction. This information is not intended to be published or made available to any person in any jurisdiction where doing so would result in contravention of any laws or regulations applicable to the user. The SICAV Fund is currently registered for marketing in: Austria, Denmark, Finland, France, Germany, Ireland, Luxembourg, Norway, Singapore, Spain, Sweden, Switzerland and the UK. Therefore the SICAV Fund is either not registered to be marketed in your jurisdiction or may only be marketed or offered to professional investors in your jurisdiction.

To the extent permitted by applicable law, William Blair will accept no liability for any direct or consequential loss, damages, costs or prejudices whatsoever arising from the use of this document or its contents.