William Blair

Third Quarter 2020

William Blair SICAV Emerging Markets Small Cap Growth 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*
Airtac International Group	2.7%
Centre Testing International Group Co., Ltd.	2.3%
Dino Polska S.A.	2.1%
Jiangsu Hengli Hydraulic Co., Ltd.	2.0%
Sinbon Electronics Co., Ltd.	1.9%
TOTVS S.A.	1.8%
China Meidong Auto Holdings	1.7%
Douzone Bizon Co.,Ltd	1.7%
Ever Sunshine Lifestyle Services	1.7%
Parade Technologies, Ltd.	1.6%
Total Top 10	**19.5%**

Performance

The William Blair SICAV Emerging Markets Small Cap Growth Fund underperformed the return of the MSCI Emerging Markets Small Cap (net) during the third quarter. Underperformance versus the Index was primarily driven by negative stock selection within the Information Technology and Healthcare sectors. Within Information Technology, Silergy Corp and Taiwan Union Technology Corp detracted from relative performance in the period. Silergy is the fabless analog semiconductor company. Despite trailing market expectations, the company delivered a robust set of results, with strong top line growth and gross margin expansion driven by favorable product mix in 5G and data centers. Although the growth outlook remains well supported amid China semiconductor localization trends and product line expansion, uncertainty around potential supply chain disruption and overseas end-market demand dented investor sentiment in the near term.

Taiwan Union Technology is a niche supplier of high-end laminates used in networking equipment and servers. The stock weakened on the back of decelerating orders amid Huawei-related restrictions. Within Healthcare, Kossan Rubber Industries and Ping An Healthcare and Technology hampered relative performance during the quarter.

After a strong year-to-date rally, Kossan Rubber Industries pulled back amid positive news flow regarding a Covid-19 vaccine and market speculation about a one-off tax on glove makers' profits.

Ping An's Good Doctor platform delivered weaker-than-expected financial results due to the impact of the pandemic on some of its services and its strategy of offering some services for free to attract patients, foster stronger relationships with hospitals and physicians, and gather support from the government.

Partially offsetting these negative effects was the underweight allocation to the Real Estate sector, coupled with above average stock selection within the Industrials sector, as Jiangsu Hengli Hydraulic and Airtac International Group helped relative results. Jiangsu Hengli Hydraulic, the Chinese manufacturer of hydraulic cylinders, posted very strong results, with sales growing 71% YoY, thanks to a combination of robust end-market demand and market share gains. Margins continued to improve amid better product mix, cost control and scale efficiency. We believe growth momentum will continue in the second half of 2020 amid sustained strong demand and market share gains coupled with capacity expansion.

Airtac is the second largest pneumatics company in China with a 20% market share. Airtac's strong share price performance was driven by robust operating momentum and a positive growth outlook as the company expects 5G-related demand and momentum in its electronics and battery segments to sustain over the coming quarters.

Positioning

During the period, Materials exposure was increased through the purchases of Atul Ltd and Navin Fluorine International. Industrials exposure was also increased via the purchase of Escorts Ltd.

Atul is the Indian diversified chemicals manufacturer. We believe the company is well positioned to deliver robust earnings growth driven by its diversified end market exposure, vertical integration in key products, efficient management system and a steadily expanding value-added product mix.

Navin Fluorine International is a pure-play fluorochemical company in India, with a significant focus on research and development. The investment thesis is underpinned by the increased usage of the fluorine molecule in the pharmaceutical and agrochemical space and the company's strong position in contract research and manufacturing services, where it has multi-year contracts with global innovators.

Escorts, the Indian tractor and machinery manufacturer, was purchased due to increased government support for farmers coupled with the company's strong execution on its growth strategy with new product launches and an expanding base of dealerships driving market share gains and increased profitability.

Real Estate and Information Technology exposures were reduced during the period through the liquidations of Pakuwon Jati Tbk PT and Poly Property Services in the Real Estate sector, and the sales of Wiwynn Corp and Alchip Technologies in the Technology sector.

Pakuwon Jati Tbk PT is a diversified real estate developer mainly focused on the two largest cities in Indonesia—Jakarta and Surabaya. We exited the position due to heightened COVID-19 risks and increasing lockdown restrictions affecting rental payments and the property market more broadly. Poly Property Services, a leading player in the property service sector in China, was sold due to disappointing results and a weakening growth outlook, in lieu of a better near term growth opportunity in our view.

Alchip Technologies is a semiconductor design services company. We eliminated the stock amid deteriorating US-China relations and the risk of increased sanctions potentially affecting the stock. Wiwynn Corp, the Taiwanese manufacturer of computer storage devices, was sold due to softer demand trends and increased competition.

From a geographic perspective, notable adjustments were increases to India, offset by decreases to Taiwan and Brazil.

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.

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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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