William Blair

Second Quarter 2021

William Blair SICAV Dynamic Diversified Allocation Fund Summary and Outlook

Performance Summary

Dynamic Diversified Allocation completed the quarter with positive performance with market, currency and security selection all positive. Within markets, long exposures to U.S., U.K., Australia, and global energy sector equities contributed. Partially offsetting this were negative contributions from long exposures to Chile and Indonesia equities.

Within currencies, long exposures to Brazilian real, Russian ruble, and Mexican peso helped performance, while long exposure to the Colombian peso, and short exposures to the Israeli shekel and Czech koruna detracted.

Positive security selection was mostly driven by outperformance of the Emerging Markets Growth strategy, while All Cap Growth and underperformed.

Fund Positioning

The market segment remains long of equities with net exposure of +43. The segment's largest country exposures are in U.S. and U.K. equities. Markets are modestly long of fixed income with a net exposure of +33%, with primary long exposure in U.S. Treasuries and emerging debt.

Within currencies, the largest long exposures are the Singapore dollar, Japanese yen, Russian ruble, and Brazilian real, while the largest short exposures are to the New Zealand dollar, euro, and U.S. dollar.

Review & Outlook

Global equities appreciated in the second quarter, as they did in the first. Several markets in developed and emerging countries reached new all-time highs (in local currency terms), including the United States, Germany, Brazil, and Russia. Bond yields, which had risen in the first three months, mostly stabilized. The larger declines in 10-year yields were in markets where they were the most positive (such as in North America and Australia). In many European markets and Japan, yields have remained continuously negative this year. The U.S. dollar experienced strength late in the quarter as the Federal Reserve communicated a slightly less accommodative interest rate path in the (quite distant) future. The currencies of other countries that have already begun increasing rates—Brazil and Russia—did better still.

Concerns about higher inflation around the world remained in focus in the quarter, and there were numerous reports of consumer price increases running at their fastest rates as had been observed for several years.

Fund Exposures as of 6/30/21

Equity	43.4
U.S.	9.4
Canada	0.6
Europe (ex-U.K.)	6.7
United Kingdom	8.1
Asia Developed	5.8
Emerging	12.9
Fixed Income	**33.0**
U.S.[1]	12.6
Developed (ex-U.S.[1])	6.7
Emerging	13,7
Unencumbered Cash[2]	**36.2**
Credit Detail	
U.S. Investment Grade Spread	5.1
U.S. High Yield Spread	1.5
U.S. MBS Spread	0.0
European Investment Grade Spread	3.3
Active Currency	
U.S. dollar (USD)	-10.6
Canada dollar (CAD)	-6.2
Other Americas	20.5
Euro (EUR)	-8.0
Switzerland franc (CHF)	-4.8
Great Britain pound (GBP)	2.1
Other Europe	-2.1
Australian dollar (AUD) and New Zealand dollar (NZD)	-20.0
Japan yen (JPY)	9.6
China yuan (CNY)	0.0
Asia (Excluding JPY and CNY)	13.1
Other	6.4

Select Exposures[3]	
Russian ruble (RUB)	8.9
Brazilian real (BRL)	8.9
Colombian peso (COP)	7.1

[1] Reflected as 10-year exposures.
[2] Unencumbered cash is residual cash and equivalents.
[3] Select currency exposures by largest expected contribution to portfolio risk.

This was most pronounced in Brazil (8% inflation) and Russia (6%), but also in the U.S. (5%)—in each case significantly above respective central bank targets. Inflation increases in Europe were less rapid but exceeded the target rates of the European Central Bank and the Bank of England. For the most part, central banks have indicated significant tolerance of price rises and have consistently indicated their belief that a majority of current inflation will be transient. This tolerance has been primarily evident in wealthy countries' policy interest rates not being raised even subsequent to inflation increasing, resulting in short-term real interest rates becoming significantly negative. Even those countries that have increased rates have not yet matched the rise in their inflation rates, and they too have allowed real (short) rates to sink further below zero.

To a large extent, increases in inflation reflect the period of economic recovery from the depths of the contraction induced by lockdowns worldwide last year during the first wave of the COVID pandemic. As businesses have reopened, the combined effects of pent-up demand and supply bottlenecks have put upward pressure on prices. The economic rebound has also been fuelled by massive monetary and fiscal expansion in several economies, very little of which has yet been reined back in. And fiscal stimulus in some countries has been further increased, even as their economies have evolved well into an expansionary phase. Consequently, there have been persistent investor worries in recent months that the sanguine view of most central banks may be misplaced, and that large parts of the world economy may lose control of an inflationary surge. We have captured this influence via a Reflation macro theme—introduced in early 2021—affecting our return and risk expectations. It is, in general, a headwind for (already overvalued) government bonds, and also adverse for (typically growth sector) equities that have more to lose from higher future discount rates. Since the influence of this theme will wax and wane over time, it can also go into the reverse direction to that just described. In fact, in late June, the Federal Reserve brought forward, slightly, its expectation of when it may eventually raise interest rates, which was a communication of slightly less tolerance of inflation than that previously expressed, and this change appeared to reassure markets that—after all—inflation was less likely to be let out of the bag. Nominal interest rates can be separated into an inflation component (which matters more for long-term rates) and a real risk-free component (more relevant for short-term rates). The initial manifestation of the Reflation theme was a rise in the inflation portion; more recently, this has abated but has been replaced in turn by a higher real risk-free rate component. Ultimately, if central banks are fully able to anchor inflation (a development about which markets are not yet wholly assured), then the theme should eventually abate. In the interim, Reflation has been predominantly positive for the performance of our strategies.

We increased equity exposure in the quarter, which presently stands at its most positive across our multi-asset portfolios, as has been the case for several years. Of note, we have not added exposure in markets that have outperformed and, consequently, are fundamentally unattractive.

In fact, where equities have become overvalued, or where the valuation opportunity has significantly shrunk after price appreciation, we have reduced positions—these include the IT and consumer discretionary sectors of U.S. equity, and also Vietnam, which has been one of the strongest emerging markets in 2021 to date. Rather, we have increased equity exposure in the Philippines, which has lagged other markets and become more attractive in an absolute and relative sense, and we bought long option exposure in eurozone equity, while also increasing long exposures in Sweden and Switzerland. Our strategy changes continued similar activity actions from the first quarter, when we had increased long equity exposure in Malaysia and Brazil, which had both underperformed at the time and become more attractive opportunities. In fixed income markets, we reduced long exposure to Australian and South African government bonds, where yields were already high coming into the second quarter, reflecting the Reflation theme, but then declined through the second quarter.

Our currency strategy changes also took advantage of shifts in relative opportunities and contributed positively to performance in the quarter. For some time, we have regarded the Brazilian real and the Russian ruble as two of the most compelling long opportunities, and we further boosted these positions in April. Although inflation is surging in both countries (as mentioned above), their respective central banks began lifting interest rates in March and, as such, are leading most of the world in the monetary policy cycle. In addition, in both cases, prolonged currency undervaluation has led to external balances of payments that are improved, or in surplus. Higher commodity prices have also benefited their terms of trade. Although real interest rates are unusually negative in Brazil and Russia because inflation has risen faster than nominal interest rates, investors appear to hold in high regard the ability of central banks to contain domestic inflation.

In contrast, we have reduced long exposure to the Mexican peso and South African rand, which are two currencies that have recovered the most since the 2020 pandemic trough and are now less compellingly attractive. We have also increased exposure to the Colombian peso, which is similarly attractive to the real and the ruble, and we have taken increased exposure to some Asian currencies, including the Malaysian ringgit and Indian rupee. Our currency strategy remains short of the U.S. dollar and is also significantly short of the euro and Swiss franc, and the Australian and New Zealand dollars. The Fed's (modest) increase in interest rate hawkishness in June indicates that—even though higher U.S. interest rates are still some distance into the future—the U.S. may be ahead of the eurozone, and perhaps other developed countries, in the monetary policy cycle looking forward. Recent outperformance of the U.S. dollar relative to these other currencies is beneficial given our significant short exposures in the latter ones, and if the Reflation theme remains most concentrated in the U.S., this may continue.

Our long-term investment objective is to deliver positive investment returns above inflation through a market cycle. We remain grounded in fundamental valuation as our first stage—we strive to take only 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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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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