William Blair SICAV Emerging Markets Debt Local Currency Fund
Summary & Outlook

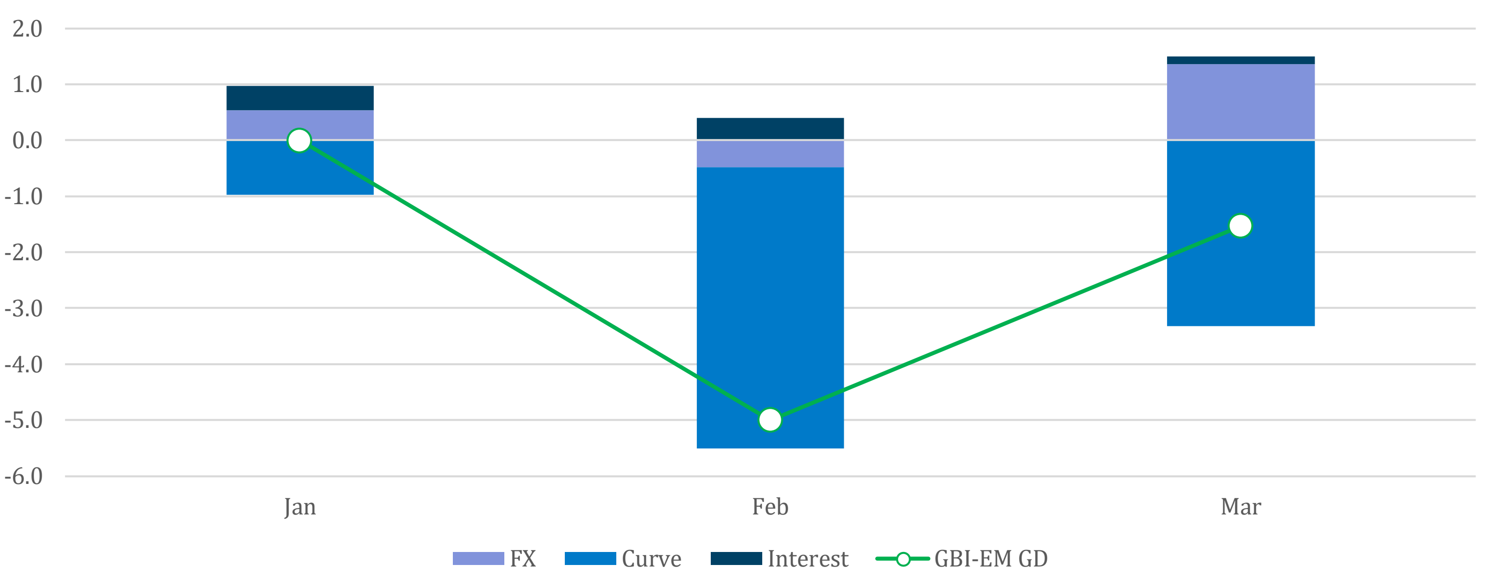
Market Overview

Emerging markets (EM) debt faced strong headwinds during the first quarter of the year as the Russia-Ukraine conflict created significant uncertainties for global investors. Moreover, a negative combination of factors—including rising inflationary pressures, the continuation of global supply-chain disruptions, ongoing monetary policy normalization, higher global rates, and rising economic growth risks—all weighed on investor sentiment. This led to outflows from EM debt portfolios, widening EM debt credit spreads, higher EM local bond yields, and weaker EM currencies later in the quarter—all amid high levels of market volatility.

In this environment, the J.P. Morgan Global Bond Index – Global Diversified (GBI-D) returned -7.77% (in local terms), producing a -6.46% total return in U.S. dollars. However, EM currencies appreciated 1.31% against the U.S. dollar, on average, partially mitigating the negative performance of local markets.

Despite the negative top-level returns, drilling down into regional and country-level performance shows a very high degree of dispersion. Severe underperformance in Eastern Europe, particularly in Russia, which was removed from the J.P. Morgan indices at the end of the quarter, contrasted with strongly positive returns in Latin America and South Africa. Market moves in Asia were more subdued given the region's much lower inflationary backdrop and lack of physical and economic proximity to the Russia-Ukraine conflict.

EMD Local Currency Returns Driven by Rates Over First Quarter 2022



Source: J.P. Morgan. As of March 31, 2022.

Performance

In the first quarter of 2022, the William Blair Emerging Markets Debt Local Currency SICAV (Class J) returned -4.69%, outperforming its benchmark (the J.P. Morgan GBI-GD) by 177 basis points (bps). Since inception on June 24, 2020, the fund has returned -0.99% annualized, outperforming its benchmark by 291 bps annualized. Returns are in U.S. dollar terms, net of fees.

During the past quarter, most of the outperformance was driven by favorable country selection and yield curve effects, while overall security selection and currency effects detracted from alpha. Within beta buckets, our allocation to high-beta countries was the largest contributor to relative performance, followed by rates hedges in developed markets; conversely, our allocation to low-beta and frontier market countries were relative detractors. To a lesser extent, the portfolio's cash holdings, risk hedging, and relative duration positioning also contributed to relative performance in the quarter.

Top & Bottom Contributors to Performance by Beta Bucket

	Positive	Negative
High Beta	Brazil Mexico Russian Federation	Colombia South Africa
Low Beta	China Israel Peru	Hungary Poland Thailand
Frontier	Dominican Republic Uganda Uruguay	Georgia Ghana Kazakhstan

As of March 31, 2022.

Past performance is not indicative of future returns. Attribution by segment is based on estimated returns of securities held within the segments listed. Calculations are for attribution analysis only and are not intended to represent simulated performance history. The actual returns may be higher or lower. Holdings are subject to change without notice. Beta segments are based on the team's quantitative and qualitative analysis. Beta segments are provided for illustrative purposes only and are not intended as investment advice or as projections of future returns. Strategy returns are based on portfolio valuations using WM Reuters New York close currency exchange rates. The J.P. Morgan Government Bond - Emerging Market (GBI-EM) Global Diversified Index is valued using WM Reuters London close currency exchange rates. Performance attribution is calculated using the WM Reuters London close currency exchange rates for the portfolio and benchmark.

Performance Review

High-Beta Bucket

The quarter was dominated by Russia's invasion of Ukraine and the resulting international sanctions on Russia. Russia began the year with a benchmark weight of more than 7%, and in unprecedented fashion ended the quarter with a 0% weight. Bonds were marked down aggressively from late February onward as international holders of Russian local bonds failed to receive their coupons and have been blocked from transacting in the local market. Russia was eventually removed from the benchmark at the end of March, and our remaining holdings have been marked down to zero.

South Africa has been relatively immune from the impact of the war, and the rising price of commodities has resulted in a positive terms-of-trade shock. The South African rand has continued to trade well in spite of a more general strong dollar environment. The South African rates market was also relatively well behaved, with the inflation impact contained and the curve starting the quarter already quite steep.

Latin American countries have been among the biggest beneficiaries of the commodity price shock and the redirecting of capital flows away from Russia and Eastern Europe. The region finished the quarter up more than 7% on a total return basis, with a 9% rally in local bonds offset marginally by a 1.5% average depreciation of currencies against the U.S. dollar. Brazil was the top performer in the benchmark for the quarter and was our largest overweight position, leading to a sizable positive alpha from both currency and allocation effects. Our smaller overweight in Mexico also generated positive alpha: while the country gained only a modest 1% over the quarter, the relative outperformance to the wider benchmark index was significant. We were also long Pemex corporate debt relative to the sovereign, and it has benefited from stable oil production and rising prices. Lastly, our small overweight to Colombian sovereign bonds detracted from performance. While we believe bond prices already reflect a high degree of pessimism regarding the fiscal and ratings outlook, the credit has continued to trade relatively poorly.

Low-Beta Bucket

In Eastern Europe, the main channel of contagion was through inflation: The impact of the war sent food and energy prices soaring higher. Consequently, inflation across the region rose significantly, causing the market to re-price the extent of the hiking cycle in Poland, Hungary, Czech Republic, Romania, and Serbia. We were underweight aggregate duration in these markets during the first quarter and used the opportunity to take a tactical overweight in the Polish zloty, which we believe to be beaten up indiscriminately.

In Asia, overweight positions in the Chinese renminbi and local rates added to performance. Inflation in the country has remained very low due to subdued consumer spending and positive base effects in food prices from last year and 2019. Further policy easing and an eventual relaxing of zero-Covid policies should support the local market in coming quarters. Conversely, our underweight in Thailand detracted significantly from performance. While the country did underperform the regional basket, falling nearly 3% over the quarter, it outperformed the wider index by a significant margin. We have since increased our exposure to the Thai baht on an improving external balance outlook, but remain pessimistic about local rates, where the curve has yet to reflect rising inflation pressures.

Frontier Markets

The impact of the Russia-Ukraine conflict spilled over into neighboring countries, with Kazakhstan's bonds and currency marked down on close political and economic ties with Russia. Our off-benchmark position in this market suffered as a result, although this was more than offset by our cash underweight in Russia. We have reduced our overall frontier markets exposure as the opportunity set has shrunk (Ukraine and Kazakhstan removed) and positioning in some countries is crowded (Egypt). However, we maintain exposure in African commodity-producing countries and are looking for further opportunities to add exposure. Overall, this basket was close to flat in alpha terms for the quarter.

Outlook

Overall, we anticipate a challenging global macro backdrop through the second quarter of the year. Rising energy and food prices and disruptions to global supply chains, created by the COVID-19 pandemic and exacerbated by the Russia-Ukraine conflict and zero-COVID policy in China, should continue to put pressure on inflation. This adds a layer of complexity for investors already navigating the prospects of faster monetary policy tightening globally. Moreover, we expect the Russia-Ukraine conflict to continue creating uncertainty as a resolution seems distant.

In this environment, we have revised our projections for EM economic growth in 2022 downward. We now anticipate less favorable fiscal and debt dynamics in the near term. While we believe external accounts should remain well supported by higher commodity prices, inflation is likely to remain a central concern for EM policymakers, leading to additional monetary tightening throughout EMs in the coming months.

However, despite these near-term risks, our medium- to long-term outlook for EM rates and foreign exchange (FX) is constructive. We believe appealing valuations, improving technical conditions, and aggressive EM central bank tightening should lead to flatter curves and currency appreciation against the U.S. dollar. Over the course of the next several quarters, this should outweigh the negative global macro backdrop and support the performance of the asset class. We thus believe EM debt currently offers attractive value to investors with a medium- to long-term horizon and a willingness to tolerate a period of higher volatility.

Broadly speaking, valuations remain compelling as EM debt appears attractively valued on both an absolute and relative basis. This is especially the case among commodity exporters, typically in the higher-yielding segment of the benchmark universe, as well as in select frontier markets. Importantly, EM debt real yields are much higher than their developed-economy counterparts, reflecting more aggressive EM monetary policy and the sharp increase in global inflation.

Outflows were well contained during the sell-off earlier this year, and more recently we started to observe inflows into dedicated EM debt portfolios, reflecting growing interest for the asset class as market volatility has started to normalize. The supply of new debt remains constrained because of declining net refinancing needs, which occurred due to improved fiscal accounts and prefinancing activities last year. We anticipate limited net debt issuance in the near term. Our estimates of reduced long investor positioning and high investor cash levels also add to an overall positive technical condition picture.

Strategy & Positioning

In this environment, we continue to favor high-yield issuers over high-grade issuers, and remain strategically overweight higher-yielding, frontier-market countries, where we believe the risk premia continue to overcompensate investors for credit risk and volatility.

In currency, we see scope for significant fundamental differentiation among countries. We prefer commodity-exporting countries, especially in the energy space, but are cautious about countries with strong trade and financial links to Russia. External balances in tourism-dependent countries should also be well supported by the decline of COVID-19-related restrictions and the resumption of international travel. Lastly, we have a strong preference for countries with easier access to financing, especially those that have strong relationships with multilateral and bilateral lenders and deeper local capital markets.

On the rates side, we see scope for outperformance in countries where central banks have been more aggressive in fighting inflation and where commodity shock supply pressures are offset by higher fiscal revenues from producer royalties. As global growth slows, following last year's rapid recovery, inflation pressures should subside, bringing EM local curves lower and flatter. We remain bearish on advanced economy and Eastern Europe bonds where real rates are deeply negative and where the Russia-Ukraine conflict is having the greatest impact.

Largest Active Positions

	FX		Rates	
	+	–	+	–
Low Beta	ILS KRW THB	RON PHP TWD	China Hungary	Malaysia Poland Thailand
High Beta	CLP IDR MXN	ZAR	Brazil	Indonesia
Frontier	KES UGX ZMW	RSD	Kenya Uganda Zambia	Serbia Egypt

As of March 31, 2022.

Holdings are subject to change without notice. Beta segments are based on the team's quantitative and qualitative analysis. Beta segments are provided for illustrative purposes only and are not intended as investment advice or as projections of future returns..

Characteristics — March 31, 2022

	Local Currency	Benchmark
Average Life (Yrs)	8.02	7.21
Effective Duration (Yrs)	4.73	5.08
Average Quality	BBB+	BBB+
Average Coupon (%)	5.12	5.28
Current Yield (%)	5.41	6.23
Yield to Maturity (%)	**7.19**	**6.55**
Convexity	0.55	0.48
Number of Securities	105	288

	Sector (%)	
	Local Currency	Benchmark
Supranational	7.20	—
Sovereign	80.47	100.00
Quasi-Sovereign	**7.06**	**—**
Corporate	1.45	—
Cash	3.82	—

		Quality (%)[1]	
		Local Currency	Benchmark
Investment Grade	AAA	7.20	—
	AA	—	4.73
	A	29.59	38.99
	BBB	29.62	32.85
High Yield	**BB**	**24.88**	**20.84**
	B	**3.99**	**1.56**
	CCC	**0.91**	**—**
No Rating		—	1.04
Cash		3.82	—

	Maturity (%)	
Years	Local Currency	Benchmark
0-1	6.68	3.96
1-3	17.96	23.75
3-5	19.00	20.06
5-7	7.57	12.60
7-10	21.64	16.99
10-20	18.21	16.80
20+	8.95	5.84

	Duration (%)[2]	
Years	Local Currency	Benchmark
0-1	10.15	4.27
1-3	18.73	26.91
3-5	23.68	23.91
5-7	16.94	18.29
7-10	22.81	20.08
10-15	7.00	4.80
15+	0.69	1.74

[1]The credit quality of securities in the Fund and Index are sourced from Standard & Poor's, Copyright © 2021, S&P Global Market Intelligence (and its affiliates, as applicable). Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold such investment or security, does not address the suitability of an investment or security and should not be relied on as investment advice. Credit ratings are statements of opinions and are not statements of fact. Credit quality designations range from AAA (highest) to D (lowest). Credit quality ratings on underlying securities are received from S&P and Moody's which are converted to the equivalent S&P major rating category for presentation purposes only. The Fund itself has not been rated.

[2]Duration distribution is the Fund's allocation to different groups of bonds, where those groups are determined by the bonds' effective interest rate duration. Effective interest rate duration is a measure of the sensitivity of a bond's price with respect to a shift in U.S. interest rates. It approximately measures the percentage change in a bond's price if U.S. interest rates change by 100 bps.

Benchmark: JP Morgan Government Bond Index-Emerging Market Global Diversified.

Fund characteristics are subject to change at any time.

Attribution by Beta Bucket — March 31, 2022

Top 10 Country Positions by Active Currency Exposure[3]

	Weight (%)		
	Local Currency	Benchmark	Active
Mexico	12.20	10.05	2.15
Euro Area	1.82	0.00	1.82
Israel	1.80	0.00	1.80
Thailand	11.55	10.03	1.52
Indonesia	11.11	10.02	1.09
South Korea	1.06	0.00	1.06
Chile	3.17	2.19	0.98
Singapore	0.94	0.00	0.94
Kenya	0.93	0.00	0.93
Zambia	0.91	0.00	0.91

Top 10 by Active Contribution to Modified Duration[4]

	Contribution to Spread Duration		
	Local Currency	Benchmark	Active
Colombia	0.45	0.23	0.22
Romania	0.25	0.11	0.14
Hungary	0.26	0.17	0.10
Brazil	0.30	0.21	0.09
China	0.60	0.54	0.05
Kenya	0.05	0.00	0.05
Uganda	0.04	0.00	0.04
Indonesia	0.59	0.55	0.04
Zambia	0.03	0.00	0.03
Uruguay	0.02	0.01	0.01

Top 10 Holdings Weights

Securities	Local Currency (%)
Brazil Zero Coupon 0 Maturity 20230701	5.57
South Africa Fixed Coupon 8.75 Maturity 20480228	3.99
Colombia Fixed Coupon 7.75 Maturity 20300918	3.74
Brazil Zero Coupon 0 Maturity 20240101	3.53
South Africa Fixed Coupon 7 Maturity 20310228	2.83
Brazil Fixed Coupon 10 Maturity 20290101	2.62
Indonesia Fixed Coupon 7.875 Maturity 20230314	2.60
Mexico Fixed Coupon 7.75 Maturity 20421113	2.57
Mexico Fixed Coupon 8.5 Maturity 20290531	2.40
Mexico Fixed Coupon 8 Maturity 20240905	2.35
	32.20

[3]Active currency exposure is the difference between the portfolio and its benchmark's currency exposure.

[4]Active contribution to modified duration is the difference between the modified duration contribution from a particular security or market segment to a portfolio, and the contribution to the portfolio's benchmark. Modified duration measures the sensitivity of a bond's price to changes in interest rates.

Benchmark: JP Morgan Government Bond Index-Emerging Market Global Diversified. Individual securities listed in this report are for informational purposes only.

Holdings are subject to change at any time. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the securities listed.

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Risks

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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 Fund is a sub-fund of William Blair SICAV, a "société d'investissement à 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^0 98806 and approved by the Luxembourg Supervisory Authority of the Financial Sector (the "CSSF") as an undertaking for collective investment in transferable securities ("UCITS") in accordance with the EU directive 2009/65/EC, as amended (the "Company"). Authorization of the Company by the CSSF is not an endorsement or guarantee nor is the CSSF responsible for the contents of any marketing material or the Company's Prospectus or applicable Key Investor Information Document ("KIID"). Authorization by the CSSF shall not constitute a warranty as to the performance of the Company, and the CSSF shall not be liable for the performance of the Company.

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The Articles of Incorporation, the Prospectus, the KIID, the Annual and Half-yearly Reports of the Fund and the Subscription Form are available free of charge in English and German from the 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. Paying agent in Switzerland is NPB New Private Bank Ltd, Limmatquai 1, CH-8024 Zurich.