William Blair

William Blair SICAV Emerging Markets Growth Fund Summary and Outlook

Market Review

Global equities advanced in the fourth quarter (the MSCI ACWI IMI returned +9.84% for the quarter and -18.40% year-to-date in USD terms), marking the end to the worst year for global equities in more than a decade. Growth equities underperformed value-oriented equities (the MSCI ACWI IMI Growth returned +5.67% for the quarter and -28.24% year-to-date, while the MSCI ACWI IMI Value returned +13.98% for the quarter and -8.07% year-to-date) as equity markets rallied behind a more dovish outlook for Federal Reserve rate hikes and loosened COVID-19 restrictions in China. From a global sector perspective, energy was the only sector to outperform on a year-to-date period (+17.35% during the quarter and +34.10% year-to-date as measured by the MSCI ACWI IMI index), while consumer discretionary and communication services were laggards (+0.84% during the quarter and -30.99% year-to-date and +2.68% quarter-to-date and -35.29% year-to-date, respectively, as measured by the MSCI ACWI IMI index).

U.S. equities advanced during the period (+7.08% for the quarter and -19.61% year-to-date as measured by the MSCI USA IMI) as investor optimism was bolstered by the prospect of cooling inflation and that policy tightening would slow. Hopes for a near-term peak in the Fed tightening cycle were fueled by some positive developments on the inflation front, including cooler CPI prints for both October and November. While the latest CPI print for November slowed to 0.1% month-on-month, inflation remains elevated at 7.1% year-on-year. Nevertheless, the final Fed rate hike of the year was 50 basis points, a pivot from the four straight 75-basis-point increases in 2022.

European equities outperformed global markets for the quarter (+19.52% for the quarter and -16.71% year-to-date, as measured by the MSCI Europe IMI), capping off a difficult year, mainly from the fallout of Russia's invasion of Ukraine and subsequent energy crisis. Within the U.K., equities advanced (+17.24% for the quarter and -9.76% year-to-date, as measured by the MSCI United Kingdom IMI), following a turbulent September. On the political front, former Prime Minister Liz Truss stepped down and Rishi Sunak from the Conservative Party was appointed. Similarly, Europe ex-U.K. advanced (+20.28% for the quarter and -18.85% year-to-date, as measured by the MSCI Europe ex-UK IMI), aided by a rally in the fourth quarter amid hopes that cooling inflation would sway central banks.

Emerging markets gained (+9.50% for the quarter and -19.83% year-to-date, as measured by the MSCI EM IMI index) broadly across countries. Chinese equities rebounded (+13.83% for the quarter and -22.03% year-to-date) on news of the relaxation of the zero-COVID policies, which helped boost optimism for economic growth in 2023. Similarly, Latin America returns continued to advance (+5.45% for the quarter and +7.26% year-to-date, as measured by the MSCI EM Latin America IMI), bolstered primarily by Argentina (+32.68 for the quarter and +35.91% year-to-date, as measured by MSCI Argentina) and Mexico (+13.47% for the quarter and flat for the year). Brazil, which outperformed for most of 2022, underperformed on a relative basis in the fourth quarter (+1.37% for the quarter and +10.31% year-to-date, as measured by MSCI Brazil IMI) amid investor concerns about President Luiz Inácio Lula da Silva's plans to ramp up fiscal spending. EMEA gained (+6.65% for the quarter and -25.62% year-to-date, as measured by the MSCI EM EMEA IMI) despite weaker returns from Qatar and Saudi Arabia (-14.43% during the quarter and -7.37% year-to-date, as measured by MSCI Qatar IMI, and -7.32% quarter-to-date and -5.13% year-to-date, as measured by MSCI Saudi Arabia IMI), impacted by weaker energy prices.

Top 10 Holdings as of 12/31/2022

Company Name	*% of Fund*
Taiwan Semiconductor Manufacturing Co., Ltd.	5.6
Reliance Industries Ltd.	4.4
PT Bank Central Asia Tbk	3.9
Samsung Electronics Co., Ltd.	3.8
AIA Group Ltd.	2.6
China Tourism Group Duty Free Corp. Ltd.	2.4
Kweichow Moutai Co., Ltd.	2.2
Wal-Mart de Mexico, S.A.B. de C.V.	2.2
PT Bank Rakyat Indonesia(Persero) Tbk	2.0
HDFC Bank Ltd.	1.9
Total Top 10	**31.0**

Fund Performance

The William Blair SICAV Emerging Markets Growth Fund underperformed its benchmark, the MSCI Emerging Markets IMI index during the fourth quarter. Underperformance versus MSCI Emerging Markets IMI (net) during the quarter was largely driven by style headwinds amid strong outperformance of low-valuation stocks, coupled with negative effect from the sharp country and industry rotation.

From a sector perspective, the underperformance was driven by negative stock selection within financials, information technology, and consumer discretionary.

Bank Central Asia and Itau drove the underperformance within financials, which is in sharp contrast with the outperformance in the prior quarter. Bank Central Asia is the highest-quality bank in Indonesia and is one of the strongest banks globally, thanks to its exceptional deposit franchise and efficient cost structure. The bank continued to deliver accelerating loan growth, improving credit metrics, and net interest margin expansion during the quarter.

Itau is Brazil's leading private sector bank with a strong retail banking franchise. While the bank posted solid results with ROE of 21%, the stock underperformed amid broad market rotation coupled with investor concerns about President Luiz Inacio Lula da Silva's plans to ramp up spending.

Within information technology, the underweighting to Samsung SDI and Samsung Electronics in the first part of the quarter hurt relative results. In addition, Globant and Dlocal were key detractors within the sector. Globant is a pure-play IT service provider in Latin America that focuses on emerging technologies in fast-growing segments such as social media, analytics, and cloud. While the company posted solid third-quarter results, with organic earnings growth of 34%, the weaker macroeconomic environment is affecting the near-term demand outlook. This, combined with the stock's relatively higher multiple, weighed on the stock performance during the quarter. Dlocal is an Uruguay-based payments service provider for enterprise merchants looking to expand into emerging markets and recently became public. The stock plunged on the publication of a short-seller report alleging contradicting financial disclosure, outsized foreign exchange gains, and raising concerns about internal controls.

Lojas Renner, a high-quality apparel retailer in Brazil, detracted to relative performance within consumer discretionary amid weaker investor sentiment towards Brazil and as the company reported disappointing same-store sales growth and rising non-performing loans.

Partially offsetting these effects was the underweighting to automobile and diversified telecommunication services industries. In addition, Dino Polska, Varun Beverages, and Capitec Bank Holdings were notable positive contributors to relative performance during the quarter.

Varun Beverages is the second-largest franchisee of PepsiCo in the world outside the United States. The share price acceleration was underpinned by strong operating momentum as the company continued to deliver better-than-expected results, driven by demand recovery post-pandemic, distribution expansion coupled with price hikes, better mix, and operating leverage. Dino Polska is a value-oriented proximity supermarket chain in Poland focused in small towns, which most organized grocery retailers have not entered. The company posted strong results with revenue growing 54% year-over-year, driven by increased traffic, food inflation, and new store openings. Capitec is a retail bank with a digital focus in South Africa. The stock rebounded from prior quarter's weak reaction to first half of 2022 results on improved investor sentiment toward South Africa fueled by encouraging fiscal budget trend and expectations of more dovish Fed as well as China reopening.

Positioning

During the period, the information technology weighting was increased through additions to Samsung Electronics and Samsung SDI, as well as the purchase of Kpit Technologies Ltd. KPIT is an Indian technology services company focused on auto software development integration services. In our view the company is well positioned to benefit from higher software content in vehicles and secular growth in connected, autonomous, and electric vehicles more broadly. We believe that the company can deliver more than 20% revenue CAGR over the medium term; driven by growing deal sizes, increased offshoring, and accelerating EV/autonomous vehicle demand.

In addition, consumer staples and real estate sector exposure also increased via purchases of Arca Continental in staples and Emaar Properties and Macrotech Developers in real estate. Arca Continental is the second-largest bottler in the Coca-Cola system in Mexico and the fourth-largest worldwide. The company has a strong competitive position thanks to its exclusive right to distribute Coca-Cola products in certain territories in Latin America and the U.S., along with its manufacturing expertise and scale. Its strong balance sheet, consistent cash generation, earnings visibility, and undemanding valuation are particularly attractive in the current environment in our view.

Emaar Properties is a leading property developer in the UAE. We believe that the company is well positioned to benefit from an economic recovery in the region, as well as increased demand for property in Dubai amid increased geopolitics tensions in other regions. Macrotech Developers (Lodha) is one of the largest housing developers in India, with multiple brands that cater to different segments. Lodha benefits from a strong brand, above-average project execution, large land bank, and ability to grow through JVs. We believe this should allow them to take advantage of the structural growth opportunities in Indian housing market.

These increases were funded through reduction to financials, communication services, and materials. Within financials, we trimmed bank holdings and exited China Merchants Bank. We sold the position due to continued weak fundamental performance driven by deteriorated macroeconomic backdrop. Communication services exposure was reduced via trims to existing positions and the sale of Kakao. We exited this high-valuation, long-duration stock as company fundamentals continued to disappoint amid challenging online advertisement backdrop and management's increased focus on investment weighing on margins. The reduced allocation to materials resulted from the sale of Yunnan Energy New Material, a provider of separator films used in batteries for electric vehicles and stationary storage, due to disappointing operating performance.

From a geographic perspective, we increased our exposure to Hong Kong, South Korea and Saudi Arabia, offset by a decrease to China.

Outlook

Our outlook has two primary elements: first, the current cycle and the implications for markets in 2023. Second, we address the bigger issue, relating to the developing likelihood we have begun to shift into a different economic and market environment, marking a different era than we have seen in the decade-plus post the Global Financial Crisis (GFC).

2023

We likely experienced peak rates of inflation during the fourth quarter and thus as price increases abate, we may be finally nearing the end of the central bank tightening in the coming months. However, while perhaps peaking, inflation is likely to remain above the historically low levels experienced during the last decade. Tight labor markets and slowing rate of globalization are probable key culprits.

Global central banks have been vigilant managing these inflationary forces, and even if we are at the tipping point of the current tightening cycle, it is quite possible that interest rates remain at levels above what we have been used to seeing during the post-GFC era.

Regarding economic growth, there is great debate about whether a recession in the U.S. can be avoided, but the precision is not relevant. It's clear to us that we are and will be in a slowdown during the first part of the year, and that will be felt even deeper in Europe.

Corporate earnings growth is projected to be slower in 2023 than 2022, and consensus estimates still appear too high in our estimation. The market started to acknowledge this in the fourth quarter of last year, and we expect that will pick up in the first months of this year.

China is a different story, as growth should accelerate as they emerge from extended COVID-related lockdowns. However, we expect growth will be uneven, and not as strong as we have seen elsewhere given there hasn't been as much fiscal support to boost consumption.

Interestingly, pent-up travel demand from China is likely to contribute more to persistent inflation than is generally understood. We expect that close to 300 million of China's population could be traveling abroad in the next several quarters, buoying demand for goods and services outside of China increasing inflation volatility—one of the reasons we believe inflation may prove to be stickier this year.

With that backdrop–lower but elevated rates of inflation, interest rates remaining above that seen in the last decade, and sluggish economic and corporate profit growth–it will remain a difficult equity market to navigate. While the big move in valuation occurred in the early parts of 2022, we still believe valuation will remain a powerful factor, in other words market returns will be a function of earnings growth rather than valuation.

The nature of this environment, and the potential for shifts in where we might find future earnings growth, in 2023 and beyond follows in the next section.

A Changing Investment Era?

We postulate that the period post the Global Financial Crisis was anomalous, and going forward we expect we could experience marginal shifts to the investing environment that would suggest an era dating back to prior decades rather than merely reverting back to the 2010s.

It's been well documented, but worth noting, that the unusual shock to the global economy and markets resulting from the financial crisis led to a decade of extremely accommodative monetary policies, lowering interest rates to historic levels.

The period was also unusual in that the expansion was quite protracted, intermittently lasting for most of the decade. We witnessed the continuation of globalization and China's ascension into the world's second biggest economy, with still high (>6%) rates of growth as key drivers. Not to mention continuation of innovation and productivity enabled by the digitalization of many areas of the industrial and consumer economy.

Thus, we experienced a long, albeit low growth, expansion accompanied by very modest inflation. This ultimately led to a period of strong returns for equities and risk assets, as "TINA"—there is no alternative—took hold in a low (zero) interest rate environment.

This ballooned during the pandemic, once it was clear to the markets that global central banks were going to do whatever was necessary to keep economic demand from plummeting. The bubble was pricked in 2022, as inflation and rates accelerated at an historic rate.

Beyond this year, there is no reason to believe that underlying real structural growth will be materially different than what we have seen in the prior decade. If anything, there may be slight risks to the downside.

As mentioned earlier, inflation and rates have shifted upward, and we think the forces that caused this may be beyond just this current pandemic-influenced economic cycle. We are loath to bet that these will revert to recent lows in the near future, as the move from quantitative easing to quantitative tightening is just underway.

Why is this macro view important? Because it sets the stage for corporate performance, but also perhaps more importantly market leadership. We believe the environment has changed enough that market leadership will be broader in the coming years as compared to the pre-pandemic era.

We look to previous central bank tightening cycles for some perspective. Our analysis shows that post the peak of prior tightening cycles, inflation remains sticky, persisting up to two years, corporate earnings growth recedes, and valuation remains a dominant factor. This is likely to be the case for the intermediate-term investing period.

Despite this backdrop, we still believe companies that persistently out-earn their cost of capital, grow their asset bases with high returns on invested capital, and innovate to solve customer needs will be attractive investments. But as we experienced post the dot-com bubble, the market needs to recalibrate expectations. We have experienced the first phase of this in 2022 but expect that it could take the next few years for this to fully materialize.

We think diversity of growth, industries, and business models at appropriate levels of valuation will make for optimal portfolio construction and investment returns. This is different than most of the 2010's, where concentrated investment strategies optimized for maximization of expected growth, in a small number of industries, with in many cases similar business models outperformed massively. We have seen these before, the Nifty Fifty of the 1970's and the tech bubble of the 1990s.

Each of these periods were symbolized by concentration of market leadership and a narrowness of what was favored—at the extreme expense of almost everything else. This really isn't reflective of longer-term market environments characterized by much more breadth and diversity in both the real economy and the markets.

Looking forward, we believe there should be opportunities for growth equities from numerous sources. Marginal changes to growth rates, in both directions, will likely drive investment performance. Companies with superior capital allocation strategies should prove to be attractive. We believe the delivery of cash flows will be favored over promise of growth, in other words, lower versus longer duration. Quality, cash flows, and predictability will likely be favored. "Old economy cyclicals" that were left for dead (commodities, financials) may continue their resurrection.

As growth equity investors for now close to three decades, we welcome this shift back to "normal" as breadth and diversity of investment ideas have been a hallmark of our success.

IMPORTANT DISCLOSURES

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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 n⁰ 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.