William Blair

Fourth Quarter 2022

William Blair SICAV Emerging Markets Small Cap 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*
Grupo Aeroportuario del Sureste, S.A.B. de C.V.	3.2
Dino Polska S.A.	2.5
TOTVS S.A.	2.3
Proya Cosmetics Co., Ltd.	2.3
PT Bank Negara Indonesia (Persero) Tbk	2.3
Varun Beverages Ltd.	2.0
Tube Investments of India Ltd.	1.9
Yunnan Botanee Bio-Technology Group Co. LTD	1.9
Grupo Aeroportuario del Centro Norte, S.A.B. de C.V.	1.8
Bumrungrad Hospital Public Company Ltd.	1.8
Total Top 10	**22.0**

Fund Performance

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

From a sector perspective, the underperformance was driven by negative stock selection within most sectors, in particular, information technology, consumer discretionary, and materials.

Within information technology, Locaweb Servicos de Internet and Dlocal were key detractors to relative performance. Locaweb Servicos is a Brazilian software company that provides a diverse portfolio of B2B solutions for the digital transformation of SME businesses. The company continued to deliver robust growth, with subscriber growth of more than 30%, which supports the early-stage penetration opportunity for the company.

However, the stock corrected amid broad market rotation in favor of low-valuation, short-duration stocks. Dlocal, a Uruguay-based payments service provider for enterprise merchants looking to expand into emerging markets, recently became public. The stock plunged on the publication of a short-seller report alleging contradicting financial disclosure, outsized foreign exchange gains, and concerns about internal controls. Brazilian holdings, Arezzo Industria E Comercio and Grupo Sbf (Centauro) hampered consumer discretionary relative results. Arezzo is a leading women's footwear franchise in Brazil. The company reported third-quarter results that continue to show growth acceleration amid economic reopening, with revenue growing 47% and EBITDA 36% year-over-year. However, expectations of decelerating momentum, coupled with deteriorated investor sentiment amid growing fiscal concerns post-election results, weighed on the stock performance. Centauro is a leading Brazilian sporting goods retailer. Fundamental performance was solid, but operating leverage weakened as the company continues to invest to upgrade stores.

Within materials, chemical holdings were the biggest drag, especially Gujarat Fluorochemicals and Fine Organic Industries. Gujarat Fluorochemicals (GFL) is an Indian chemicals company with strong expertise in fluorine chemistry. The company is key supplier of fluoropolymers to Europe and the United States, and we believe it is well positioned to benefit from its first-mover advantage in new age products. Fine Organic Industries is a specialty chemicals company and is the largest manufacturer of oleochemical-based additives in India with a strong global presence. Despite continuing to deliver strong fundamental performance that exceeded consensus expectations, driven by high volumes, pricing, and high utilization rates, the stocks underperformed after accelerating in prior quarters.

Partially offsetting these effects was the positive stock selection in utilities and consumer staples. Within utilities, Terna, a Greek renewable company, drove the outperformance. The strong stock performance was underpinned by better-than-expected third-quarter results bolstered by energy trading acceleration and favorable growth outlook on expected capacity additions. Investor sentiment was further fueled by ongoing comments about a potential buyout.

Within consumer staples, Varun Beverages and Dino Polska were key contributors to relative results. Varun Beverages is the second-largest franchisee of PepsiCo in the world outside the United States. The share price acceleration was underpinned by a 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 opening.

In addition, Mexico holdings were notable contributors to performance, in particular, Grupo Aeroportuario Del Sureste and Banco Del Bajio added the most. Grupo Aeroportuario Del Sureste is the Mexican airport operator with concession over key airports such as Cancun. Accelerating air traffic trends to above pre-pandemic levels coupled with the company's strong operational leverage drove the stock outperformance. Banco Del Bajio, the Mexican regional bank, outperformed amid recovering loan growth and improving net interest margin driven by higher rates, better loan mix, and lower-cost deposits.

Positioning

During the period, the most notable weight increases were in information technology, real estate, and consumer staples. Exposure to information technology was boosted by an increase to the semiconductor industry, via additions to existing positions and new purchases of Nanya Technology and Parade Technologies. Nanya Technologies is a Taiwanese memory semiconductor manufacturer focused on niche applications with customer relationships increasingly driven by longer cycle and stickier end-markets. Parade Technologies is a Taiwanese fabless semiconductor company that is a beneficiary of increasing demand for faster data transmission speeds in everything from notebooks and TVs to servers/datacenters. While the downward semiconductor cycle is still underway, we believe earnings deterioration is nearing a trough for some segments and the stocks' current valuations offer an attractive risk/reward.

The real estate weighting was boosted with the purchase of Macrotech Developers (Lodha), 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 joint ventures. We believe this should allow it to take advantage of the structural growth opportunities in Indian housing market.

Juewei Food Co Ltd was a new position in consumer staples. The company is the leading producer and retailer of casual braised snack foods in China. The company has a strong brand given its expansive store footprint in 29 provinces and municipalities, which is supported by a strong franchise management organization. After strong headwind from COVID-19 lockdowns and a weak consumer backdrop, we believe the company is well positioned to benefit from the country re-opening.

These increases were funded with reduction to materials, consumer discretionary, and healthcare.

Within the materials sector, we trimmed existing chemicals positions and sold Clean Science & Technology, a key player in the green chemicals market within India. While the long-term growth opportunity remains attractive, the company is facing near-term headwinds amid an economic backdrop affecting contract duration, continued inflationary pressures, and the company's focus on market share expansion limiting price increases. Consumer discretionary weighting was reduced via sales of Grupo Sbf (Centauro), the leading Brazilian sporting goods retailer, and Bata India, the leading footwear company in India, amid portfolio repositioning. We also sold Apollo Hospitals Enterprise, a leading private hospital operator in India in healthcare, in order to reduce valuation risk and India exposure. While the company delivered strong growth fueled by its pharmacy business, its sustained investment in its digital platform will likely continue to weigh on margins in the near term.

From a geographic perspective, we repositioned the portfolio with notable increases to our China exposure with an overweight allocation and increased weightings to South Korea and Taiwan. In contrast, India and Brazil weighting were decreased to a reduced overweight allocation.

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.

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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.