

William Blair SICAV  
Dynamic Diversified Allocation Fund

Class J (H GBP)

*William Blair*

Quarterly Review

December 2017

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- **Several of the headwinds that weighed against attractive investment opportunities have recently faded. This is consistent with more subdued volatility in markets and currencies across our investment universe.**
- **Many recent changes to strategy have been in response to relative price movements across our universe, rather than changes in the “Why” stage of our investment process.**
- **Dynamic Diversified Allocation’s beta profile is within its expected long-term average range, though overall strategy risk remains slightly below average.**

#### **Performance Summary**

The Dynamic Diversified Allocation strategy completed the quarter with positive performance. Market strategy, currency strategy and security selection were all positive during the quarter. Our market strategy was particularly bolstered by long exposure to international equities, developed and developing. Short exposure to Japanese equities detracted. Positive contribution from currency was largely driven by long exposures to emerging currencies such as the South African rand, Chinese yuan, and Philippine peso. Security Selection was slightly positive during the quarter, with positive performance from International Leaders.

#### **Strategy Positioning**

We now feel less compelled to maintain our strategies as de-risked as they previously were, in respect of opportunities that have been affected by shorter-term macro-thematic and geopolitical headwinds. Many recent moves in our strategy have been in response to relative price movements across our universe, rather than a change in the “Why” stage of our investment process.

Market strategy remains long of equities, with effective exposure of +31%, unchanged during the quarter. The strategy remains long of Europe, UK, U.S. and emerging equities. Market strategy is modestly long of fixed income with a net exposure of +13%.

Within currencies, strategy remains mostly long of emerging currencies and short of developed currencies, in line with fundamental valuation. Our largest long positions remain in emerging currencies such as the Chinese yuan, Philippine peso, and Indian rupee with our largest short positions in the U.S. dollar, Swiss franc, and New Zealand dollar.

#### **Strategy Review and Outlook**

Global equities rose again in the fourth quarter, completing a generally uninterrupted year of price appreciation and positive return for developed and emerging markets alike. Within developed equities, Japan and the United States performed better than Europe for the quarter and year; within Europe, Italy, Germany, and France had stronger performance than Spain and the United Kingdom. Nevertheless, all markets provided returns that compensated for historically low levels of volatility. Government bond yields remained low almost everywhere. Most developed and emerging currencies made gains against the U.S. dollar, the strongest being the euro and closely linked currencies in continental Europe; it was the euro’s turn to benefit from building “tapering” expectations in respect of its central bank’s earlier quantitative-easing-oriented asset purchases.

Global growth was positive, if not spectacular, in most regions, lifted mostly by manufacturing and consumption gains. Geopolitical risks, which significantly affected many markets in 2016, generally faded from view but did not vanish in all cases (a notable exception was the United Kingdom). Other themes that we had regarded as macro

headwinds to market returns in 2016—the prior long-term energy price declines, fears concerning the economy of China, vulnerability of emerging economies to balance-of-payment-induced capital flight—either diminished sharply or became virtually absent. As a result, risk-taking on the part of investors resumed, even as fundamental opportunities became smaller (because prices moved nearer to fundamental values).

Our investment process is primed not to chase shrinking investment opportunities, particularly not out of a naïve belief that lower, backward-looking volatilities mean that the capital markets are safer. The hazards of such behavior can lead to high leverage at the worst times (such as late 2007 before the Global Financial Crisis), and similarly to cutting exposures drastically in the aftermath of large upward spikes in realized risk, when return damage has already been done. Using the analogy of an impending alpine avalanche, the most dangerous time to be walking on a snowy mountainside may be just before a calamity (especially when there has been an absence of an event for a long period of time), when the scenery still looks serene. Conversely, after the avalanche has created a scene of wreckage and destruction may actually be the safest time to approach such an environment in pursuit of opportunities since the previous instability has dissipated. But, notwithstanding this, we agree with the market that ex-ante risk is low—and probably lower than long-term Equilibrium risk. However, we do not believe the true risk level is as low as contemporaneous volatility readings indicate. Thus, we have increased the risk in portfolio strategies from late 2016, but not for the purpose of chasing diminishing returns or from a belief that the world is exceedingly safe.

Within this quarter and for most of 2017, much of our focus in investment strategy has been to increase nonsystematic risks by increasing exposures in ways that do not add to total market exposure (or beta). In fact, we have maintained equity beta at or slightly below our long-term average expectation, commensurate with generally midsize beta opportunities, the majority of which have resided in Europe. Thus, we have responded to widening or narrowing opportunities between one market and another—such as increasing exposure to Australian equities, which have lagged other markets, while trimming Italian equities, which have led. We made analogous changes in emerging equities, increasing exposure to Brazil, where we conclude that the macro and political headwinds that had caused that market to underperform have now abated, and reducing exposures to Taiwan and Vietnam, which had benefited portfolios prior to our reductions and, thus, where opportunities have now diminished. We have been more cautious to increase currency risk—particularly where the primary valuation opportunity has been attractive emerging and unattractive developed currencies, though our strategy is aligned with this valuation opportunity. Our caution toward building this axis further comes from the potential risk of the long emerging, short developed currency positioning taking on characteristics of “positive beta” in select risk-off environments. We have also tried to avoid materially raising the sensitivity of the strategy to broad market risk and risk appetites as 2017 only presented a midsize fundamental opportunity in aggregate. However, we have increased currency exposures in several cases. In the fourth quarter, our changes to currency exposures involved moving from short to long of Japanese yen (a relatively belated response to the currency becoming fundamentally attractive) and from short to further short of some emerging currencies in Asia. These changes were exceptions to the general pattern noted above, involving attractive developed and unattractive emerging currencies rather than the opposite. They

could be expected to offer useful diversification as protection from potential downside risk, and as they are justified by our fundamental expectations, they are equally compelling to unsystematic market opportunities, in both Equilibrium and short-term risk environments.

Our strategy has added value by separately taking positions long of U.K. equity and GBP in 2017, despite a period of considerable political uncertainty affecting the United Kingdom, in respect of both the stability of its government (following a midyear snap election that did damage to the ruling conservative party) and its Brexit negotiations with the European Union. These geopolitical risks could have been regarded as justification for avoiding U.K. exposure, but through our game theater approach, we instead concluded that the economic and investment implications pointed more toward bargaining inertia and a slow negotiation progress, coupled with the United Kingdom's initially hard stance being progressively relinquished. Therefore, the Brexit trajectory currently points toward less adverse outcomes than markets initially feared, which has allowed U.K. assets and the GBP to overcome some of their prior fundamental undervaluation. The situation could change and evolve quickly, but we believe it is important to develop a framework to account for geopolitical risks that will not universally lead to their avoidance in portfolio strategy. The U.K. analysis has borne this out recently.

While we agree with the market that the near-term risk environment is relatively benign, it is important to make a distinction between our risk analysis (multi-dimensional and forward-looking) and that of many investors who use a "rear-view mirror" approach, such as looking at recent levels of realized volatility or implied volatility in options markets. Our determination of near-term risk comes from an assessment of the intensity of a

number of risk factors that our macro themes bring to bear. This is a focus more on *drivers* of risk than *symptoms* of risk. Our Outlook risk model is our means to model the nearer-term risk environment. Importantly, we *derive* the Outlook model from our longer-term, forward-looking Equilibrium model by influencing (or "disturbing") the Equilibrium model with these macro risk factors. In 2017, we reduced the impact of a number of these factors through our continuing analysis of risk themes. So, as previously referenced, while we do believe we are in a near-term period of relatively benign risk, our methodology remains uniquely provisioned to allow us to reverse this belief should our analysis suggest that the chances of a thematically or geopolitically induced "avalanche" rise again. The task of macro investors is to steer a smart course between greed and fear, euphoria and panic, without blindly attaching themselves to either of these poles.

In the larger picture, our longer-term investment objective is to deliver positive investment returns above inflation through a market cycle. In normal times, some of this is provided by available real risk-free interest rates ("normal" signifying a close-to-equilibrium state of the global economy and capital markets), with the remaining part of the return objective requiring dynamic management of market and currency risk over time. What is unique about the last 10 years has been the extraordinarily low level of risk-free real rates globally, which were brought down swiftly in response to the Global Financial Crisis and have since remained extremely low or negative in much of the world. This development has created two implications: one is that central bank policies of ultra-easy monetary policy have implicitly and explicitly encouraged investor risk taking; the second is a widening of the performance gap that must be filled between real risk-free rates and portfolio return objectives. With these developments aside, we do not accept the bait of an artificially stimulated risk-seeking

environment—this being fraught with the danger of extrapolative expectations and antithetic to our forward-looking approach to risk and return. We remain grounded in fundamental valuation as our first step—meaning we strive to only take compensated risk and 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.

Accordingly, there will be environments in which we conclude that macro markets simply 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.

The below table shows the performance of the William Blair SICAV – Dynamic Diversified Allocation Fund as of quarter-end.

<i>Periods ended 31/12/2017</i>	<b>Quarter</b>	<b>YTD</b>	<b>1 Year</b>	<b>Since Inception*</b>
William Blair SICAV – Dynamic Diversified Allocation Fund (Class J H <sup>GBP</sup> )	0.92%	7.52%	7.52%	4.57%
DDA Long-Term Return Objective**				7.96%

\*Inception: 23/09/2016

\*\*The Fund's performance objective is a rate of growth of + 5% p.a. (gross of fees) in excess of the UK Harmonised Index of Consumer Prices over a full market cycle (defined as a 5 year time period). No assurance can be given that the Fund will meet its performance objective.

*Periods greater than one year are annualised. All charges and fees have been included within the performance figures. For the most current month-end performance information, please visit our Web site at [sicav.williamblair.com](http://sicav.williamblair.com).*

*Please refer to the 'Important Disclosures' section at the end of this document for further information on investment risks and returns.*

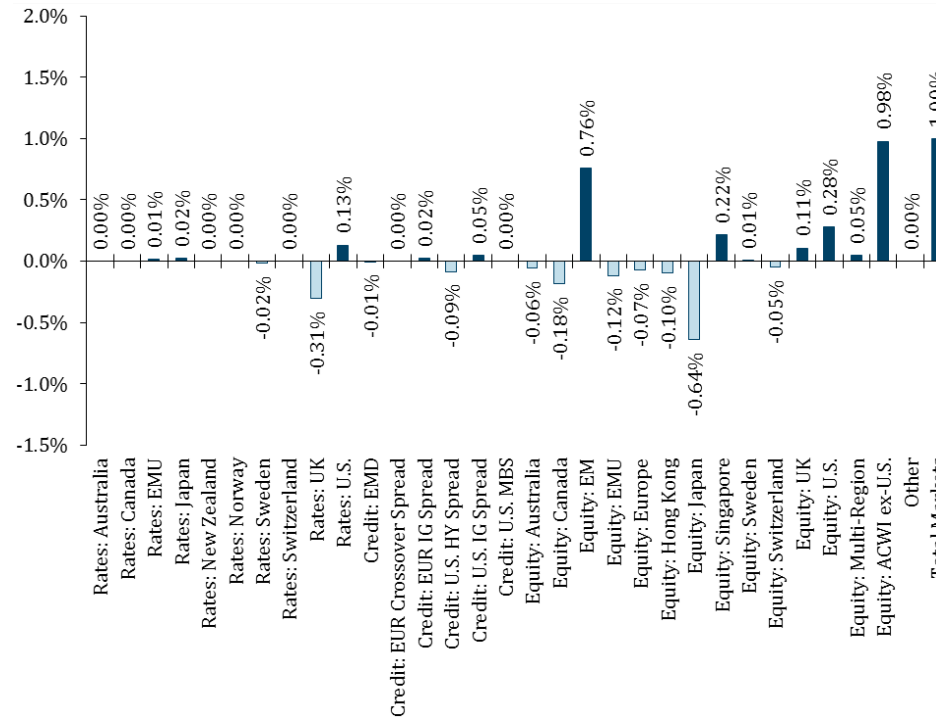
The below table shows the calculated regional performance attribution of DDA SICAV by asset segment for the reporting period.

<b>DDA Attribution</b>						<b>Security</b>	<b>Residual</b>	
<b>2017 Q4</b>	<b>Equity</b>	<b>Rates</b>	<b>Credit</b>	<b>Currency</b>	<b>Selection</b>	<b>/Other</b>	<b>Total</b>	
North America	0.09%	0.13%	-0.04%	0.02%	-0.05%		<b>0.15%</b>	
Developed Europe	-0.12%	-0.31%	0.02%	0.09%	0.00%		<b>-0.32%</b>	
Developed Asia (ex Japan)	0.06%	0.00%	0.00%	0.15%	0.00%		<b>0.21%</b>	
Japan	-0.64%	0.02%	0.00%	0.00%	0.00%		<b>-0.62%</b>	
Emerging Markets	0.76%	0.00%	-0.01%	0.12%	0.00%		<b>0.88%</b>	
Multi-Region	1.03%	0.00%	0.00%	0.00%	0.09%		<b>1.12%</b>	
Residual/Other							<b>-0.50%</b>	
<b>Total</b>	<b>1.18%</b>	<b>-0.15%</b>	<b>-0.02%</b>	<b>0.38%</b>	<b>0.04%</b>	<b>-0.50%</b>	<b>0.92%</b>	

*Source: Bloomberg and DataStream.*

**Past performance does not guarantee future results.** Portfolio exposures based on the William Blair DDA SICAV. Relative monthly market attribution is an internal estimate that applies hedged returns sourced from Bloomberg and DataStream to the beginning of month strategy exposures and includes changes throughout the month. The categories included seek to group instruments that represent strategic exposures. Attribution analysis is not a precise measure and should not be relied upon for investment decisions. Please refer to the 'Important Disclosures' section at the end of this document for further information on investment risks and returns.

The below chart shows the calculated market segment performance attribution for DDA during the reporting period.

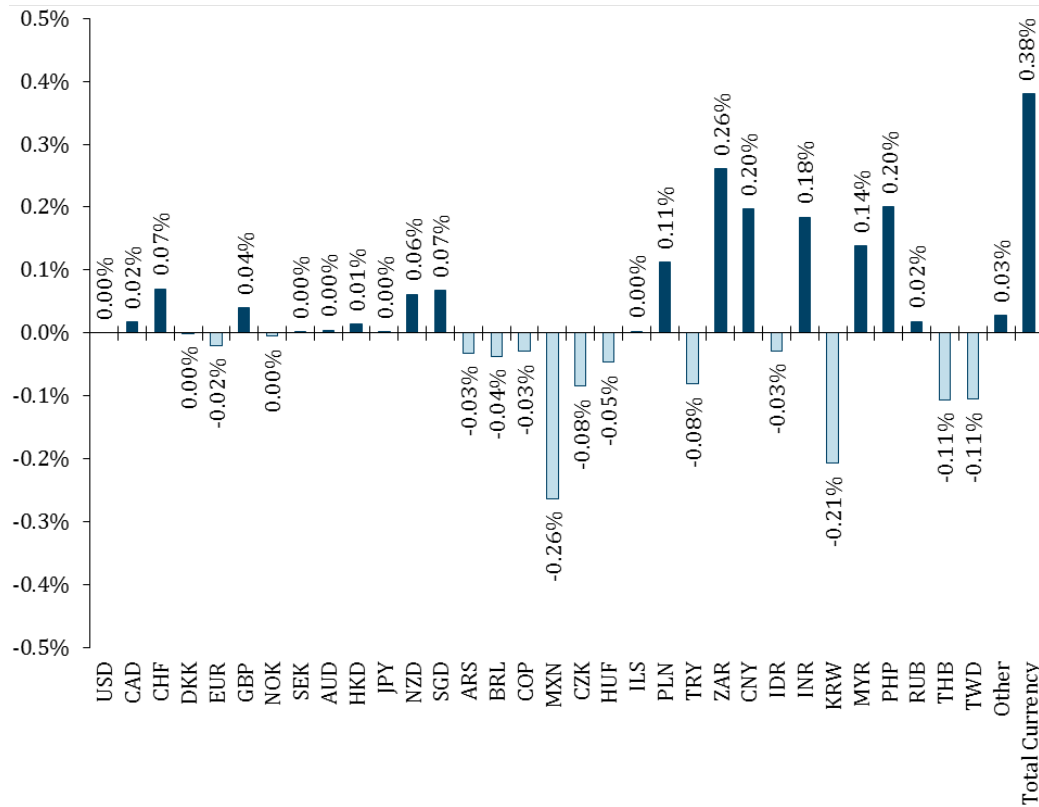


Source: Bloomberg and DataStream.

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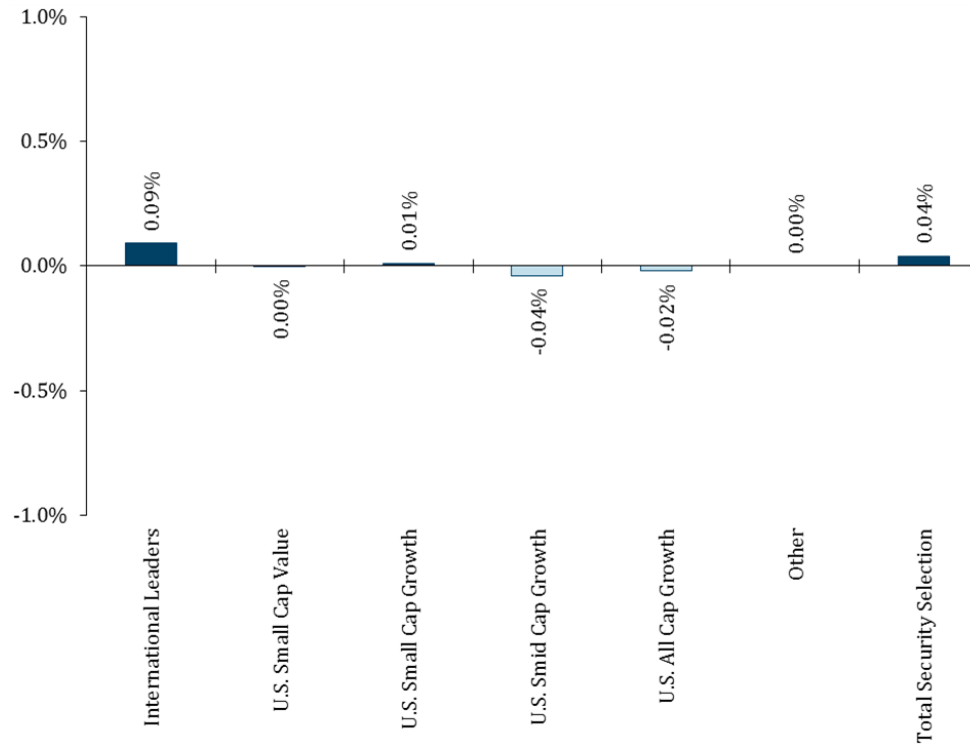
The below chart shows the calculated currency performance attribution for DDA during the reporting period.



Source: Bloomberg and DataStream.

**Past performance does not guarantee future results.** Portfolio exposures based on the William Blair DDA SICAV. Relative monthly market attribution is an internal estimate that applies hedged returns sourced from Bloomberg and DataStream to the beginning of month strategy exposures and includes changes throughout the month. The categories included seek to group instruments that represent strategic exposures. Attribution analysis is not a precise measure and should not be relied upon for investment decisions. Please refer to the 'Important Disclosures' section at the end of this document for further information on investment risks and returns.

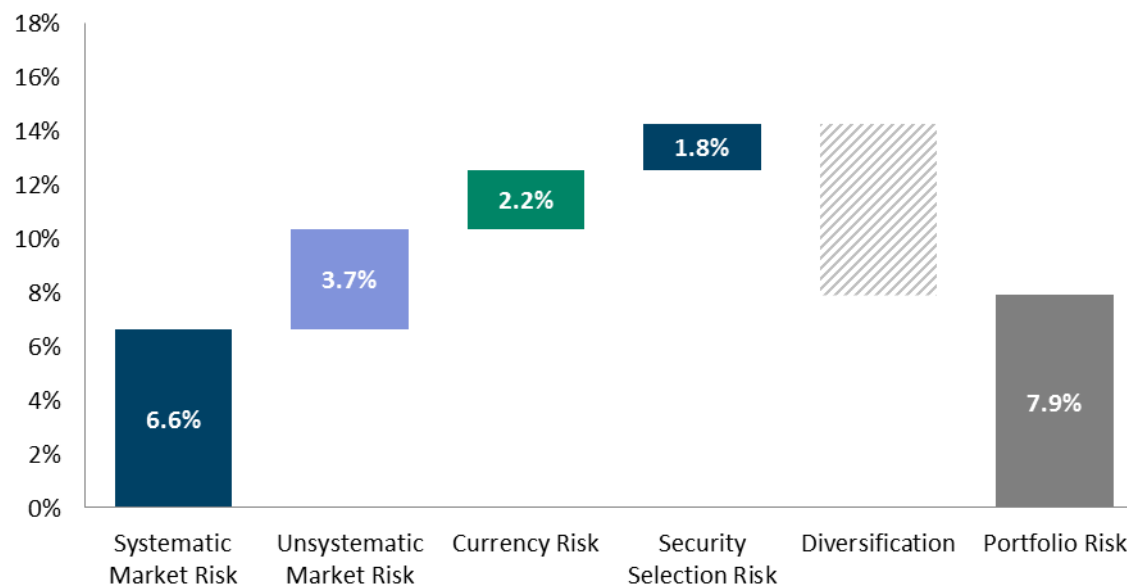
The below chart shows the calculated security-selection-oriented performance attribution for DDA during the reporting period.



Source: Bloomberg and DataStream.

**Past performance does not guarantee future results.** Portfolio exposures based on the William Blair DDA SICAV. Relative monthly market attribution is an internal estimate that applies hedged returns sourced from Bloomberg and DataStream to the beginning of month strategy exposures and includes changes throughout the month. The categories included seek to group instruments that represent strategic exposures. Attribution analysis is not a precise measure and should not be relied upon for investment decisions. Please refer to the 'Important Disclosures' section at the end of this document for further information on investment risks and returns.

The below chart shows the expected sources of investment risk for DDA as of quarter-end.



Source: William Blair. Please refer to the 'Important Disclosures' section at the end of this document for further information on investment risks and returns.

<b>Equity</b>	<b>31.4%</b>
U.S.	4.2%
Canada	-2.8%
Europe (ex-U.K.)	13.6%
UK	5.9%
Asia Developed	0.9%
Emerging	9.7%

<b>Fixed Income</b>	<b>13.4%</b>
U.S. Treasury & Credit <sup>1*</sup>	8.9%
Non-U.S. Treasury & Credit <sup>1*</sup>	2.6%
Emerging	1.8%

<b>Unencumbered Cash</b>	<b>30.8%</b>
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<sup>1</sup>Reflected as 10-year exposures

<i>*Credit Detail</i>	
U.S. Investment Grade Spread	8.3%
U.S. High Yield Spread	-1.7%
U.S. MBS Spread	0.0%
European Investment Grade Spread	3.5%
European High Yield Spread	0.0%

<b>Active Currency</b>	
U.S. Dollar (USD)	-8.8%
Canada Dollar (CAD)	-2.6%
Other Americas	11.6%
Euro (EUR)	-5.2%
Switzerland Franc (CHF)	-6.9%
Great Britain Pound (GBP)	4.3%
Other Europe	-3.0%
Australia Dollar (AUD) and New Zealand Dollar (NZD)	-10.3%
Japan Yen (JPY)	5.2%
China Yuan (CNY)	7.3%
Asia (Excluding JPY and CNY)**	1.5%
Other	6.9%

<i>**Select Exposures Detail</i>	
Indian Rupee (INR)	6.0%
Philippine Peso (PHP)	8.2%
Singapore dollar (SGD)	5.6%

Market and currency strategy exposures shown above are as of quarter-end. For illustrative purposes only and not intended as investment advice. Allocations are subject to change without notice.

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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](http://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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