

William Blair SICAV
Dynamic Diversified Allocation Fund

Class J (H EUR)

William Blair

Quarterly Review

March 2018

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- **Following a period of high risk-seeking behavior which fueled general asset market appreciation and low volatility, the first quarter underscores how swiftly a market environment can change without a material change in the macro backdrop or fundamental valuation.**
- **Without a major change in Where or Why considerations, navigation of first-quarter market activity required more discipline in respect of specific market downside risk management (How).**
- **Dynamic Diversified Allocation's beta profile is within its expected long-term average range, though overall strategy risk remains below average.**

Performance Summary

The Dynamic Diversified Allocation strategy completed the quarter with positive performance. The currency strategy and security selection were positive during the quarter while the market strategy was negative. Our market strategy benefitted from long exposure to emerging equities and short exposure to Canadian equity. Long exposure to developed European and U.S. equities detracted. Positive contribution within currency was largely driven by long exposures to emerging currencies such as the Mexican peso, Chinese yuan, and Colombian peso and long exposure to the Japanese yen. Negative contribution within currency was mostly due to short exposures to the Thai baht and New Zealand dollar, and long exposure to the Philippine peso. Security selection also contributed positively, driven by International Leaders, U.S. Smid Cap Growth and U.S. All Cap Growth.

Strategy Positioning

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, euro, and New Zealand dollar.

Strategy Review and Outlook

Equity markets around the world enjoyed a positive first three weeks of January, continuing the smooth trajectory seen in 2017. This equity run was interrupted fairly dramatically just before January month-end and was followed by two weeks of steep falls, which produced a peak-to-trough decline of almost 10% in the MSCI All Countries World Index. Markets re-stabilized toward the middle of the quarter, only to fall again in March. Emerging equities were mostly resilient relative to developed equities. Developed government bond yields rose outside of Japan, and the U.S. dollar mirrored equities, depreciating in January against other developed and emerging currencies alike, before steadying.

As noted in our previous letter, we believe it is hazardous to chase shrinking fundamental investment opportunities in response to low levels of realized volatility, and this caution proved to be warranted in the middle of the first quarter. When we examined our macro analysis of thematic and geopolitical headwinds (or tailwinds) over the course of the past year, we "agreed" with apparent contemporaneous market sentiment that near-term risks had declined relative to prior years, but we did not conclude that systematic market risk was as low as was indicated by prevailing readings of volatility. As a result, we identified potential

vulnerability in markets issuing directly from the extended period of steady price rises, which was smooth and absent of negative shocks. To reiterate our oft-quoted avalanche analogy: the most dangerous time to be walking on a snowy mountainside may be when the scenery looks most peaceful and memory of a calamity has faded (especially when a long time has passed since the last one). Conversely, the safest time to be on the mountain may actually be after the avalanche has created a scene of wreckage and destruction and the instability has been released.

One rationale supporting this exhibition of market behavior is the phenomenon whereby market performance—like in 2017—tends to give rise to correlated trading activity and the proliferation of strategies designed to perform well against a backdrop of sustained market trends and market characteristics. In particular, certain rule-based trading strategies, which have risen in popularity, have created an intrinsic vulnerability if the trends and characteristics that gave rise to their popularity start to change or reverse. In February, leveraged funds that took negative exposure to implied volatility, which had performed strongly in the prior year, made news as casualties of the market unwind, as the assets invested in such vehicles had risen to a record in January 2018 (according to one research firm). Some of these funds experienced fatal losses in February. Outside of this niche, forced liquidations appear to have been limited, and further downside avoided.

However, the February episode underscores an important way in which market environment can swiftly turn without a material change in the macro backdrop, or indeed any change in fundamental valuation. In other words, this development was generally beyond the scope of the fundamental valuation (*Where*) and the macro thematic, geopolitical, and conventional wisdom (*Why*) strands of our investment process, but rather resided in the risk management

(*How*) stage. Although increased market concern about rising interest rates circulated as an explanation at the time, this is not highly compelling, in our view, because central banks have strived to make communication as forward-looking as they can over recent years. Thus, we conclude that the inherent vulnerability created by a long period of calm performance gains is the causal factor on which to appropriately focus.

Without a major change in *Where* or *Why* considerations, navigation of first-quarter market activity required more discipline in respect of specific market downside risk management. One way to hedge this type of risk is to hold long option exposure (known as “convexity” because of the property whereby options can automatically reduce exposure to falling markets as they depreciate). Although volatility, a key ingredient in how expensive or inexpensive options are priced, was low, owning options requires a premium that erodes more portfolio value the longer they are held. Instead, our management strategy in the quarter involved manually reproducing the effect of convex derivatives by reducing our equity market exposure and some emerging currency exposure, in the early stages of prices succumbing to down moves. We temporarily reduced European and U.S. equity, and also Asian and Latin American currency positions early in February. As downside abated, and since these trades were not made for *Where* or *Why* reasons, we re-established exposures in early March. The impact on portfolios from temporarily reducing downside volatility was similar to holding options and while somewhat labor-intensive, was implemented without the cost of option premia. Of course, this strategy does not mean “zero cost”; manual replication of options can result in selling positions and then repurchasing them at higher prices if large downside moves do not materialize. Rather we considered this alternative approach to be more appropriate given our considerations of market conditions: vulnerability brought

about by prior stability, but no good ex-ante “catalyst” that was available to guide the time frame of a reversal of stability. Looking forward, the possibility of a repeat of February (or something even more severe) remains high. And, just as market participants may have been reawakened to a truer representation of risks, we remain vigilant to a repeat.

Also looking forward, protectionist rhetoric (and potential policy implementation) has grown in respect of its market influence, led by the U.S. administration’s desire to both renegotiate the North American Free Trade Agreement (NAFTA) terms, and its action in imposing selective tariffs on trade imports from other countries, particularly China. These developments have been an aim of the Trump administration since before the 2016 U.S. election but have been occluded by other policy initiatives until more recently. Trade war risk is generally adverse for growth in the countries engaged in and targeted by it and can thereby be negative for their countries and/or currencies. In respect of NAFTA, we reduced our long exposure to the Mexican peso (MXN), an otherwise fundamentally attractive currency, to reflect the rising intensity of these risks. In addition, we reduced long China equity exposure at the start of February, partially in response to price appreciation and a narrowing fundamental opportunity, but also due to the expected rise in rhetoric and tariff imposition. A trade war is not our central expectation, but we believe caution is warranted in these areas either until such risks fade, or it becomes possible to reinstate exposures at more attractive price levels.

Another change to strategy within the quarter, again a temporary risk reduction, was in Italian equity, where we cut exposure in the approach to a general election held on March 4. This change was rooted mostly out of concern that populist parties would perform strongly and usher in both greater political uncertainty than usual,

and potentially more market destabilizing fiscal or protectionist policies. The election outcome would appear to have done just this, but market fallout has been limited indicating that many investors were prepared for these risks. We reinstated exposure in Italy after the election.

In the larger picture, our longer-term investment objective is to deliver positive investment returns above inflation through a market cycle. We remain grounded in fundamental valuation as our first step—we strive to only take 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.

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

<i>Periods ended 31/03/2018</i>	Quarter	YTD	1 Year	Since Inception*
William Blair SICAV – Dynamic Diversified Allocation Fund (Class J H ^{EUR})	0.08%	0.08%	3.37%	2.97%
JP Morgan Cash Index – GBI Euro Cash (3M)	-0.09%	-0.09%	-0.34%	-0.31%
Europe CPI + 5%**				6.77%

*Inception: 23/09/2016

**Long-Term Return Objective

The deposit rates used in the calculation of the JP Morgan Cash Index are LIBOR or similar local reference rates. The Europe CPI Index + 5% is included as a supplemental reference and represents the performance target of outperforming inflation by five percentage points. This is a long-term performance target and, therefore, is only included for the period since inception. The Consumer Price Indexes (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

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.

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

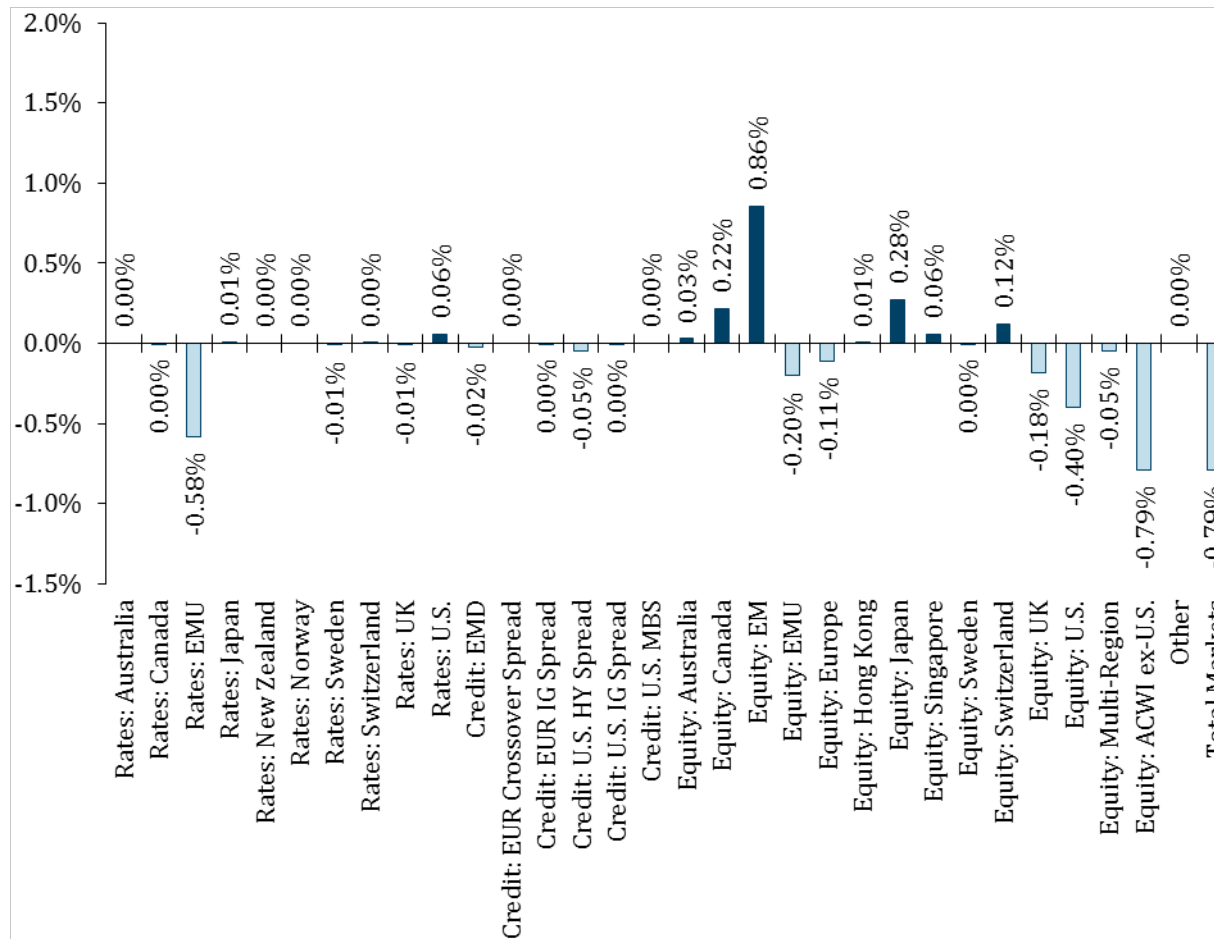
The below table shows the calculated regional performance attribution of DDA SICAV by asset segment for the reporting period.

DDA Attribution 2018 Q1	Equity	Rates	Credit	Currency	Security Selection	Residual /Other	Total
North America	-0.18%	0.05%	-0.05%	-0.02%	0.46%		0.26%
Developed Europe	-0.38%	-0.60%	0.00%	-0.03%	0.00%		-1.01%
Developed Asia (ex Japan)	0.09%	0.00%	0.00%	-0.05%	0.00%		0.04%
Japan	0.28%	0.01%	0.00%	0.31%	0.00%		0.60%
Emerging Markets	0.86%	0.00%	-0.02%	0.38%	0.00%		1.22%
Multi-Region	-0.84%	0.00%	0.00%	0.00%	0.22%		-0.62%
Residual/Other							-0.41%
Total	-0.17%	-0.54%	-0.07%	0.59%	0.68%	-0.41%	0.08%

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.

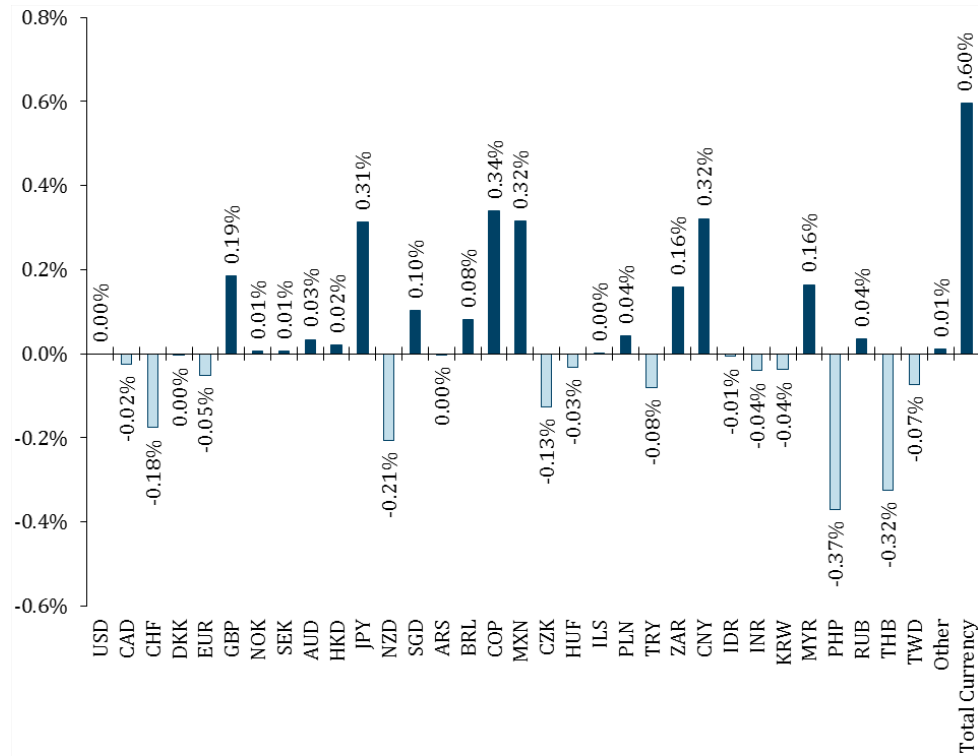
The below chart shows the calculated market segment performance attribution for DDA during the reporting period.



Source: Bloomberg and DataStream.

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.

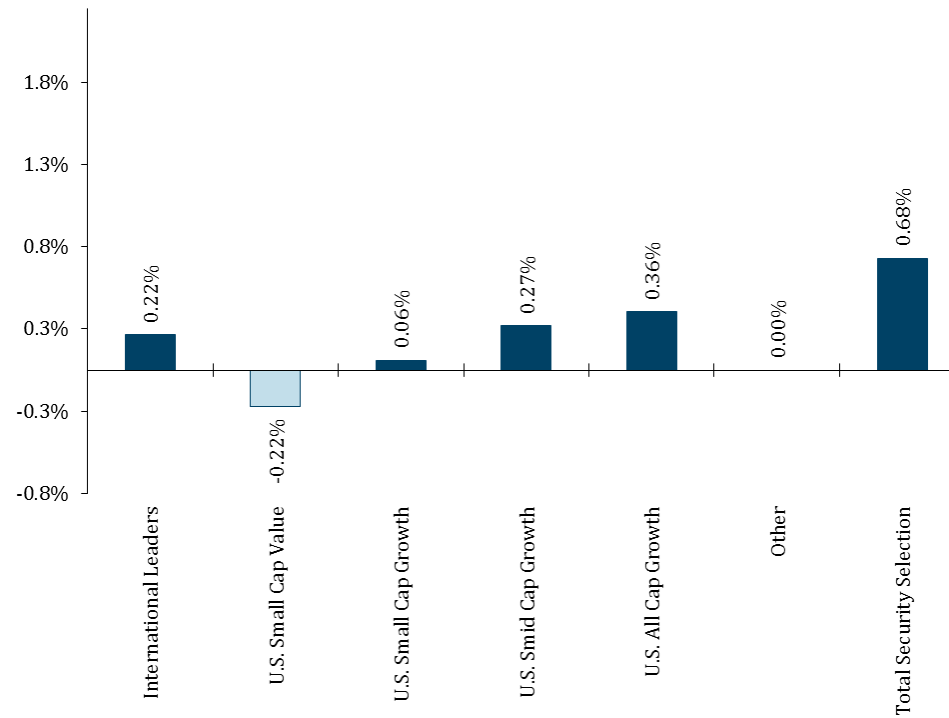
The below chart shows the calculated currency performance attribution for DDA during the reporting period.



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.

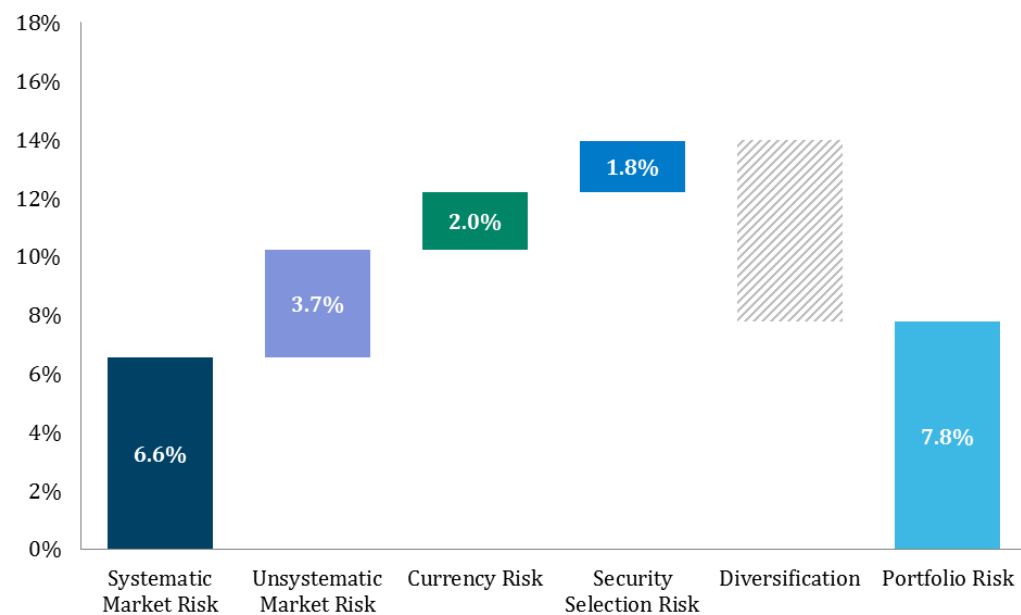
The below chart shows the calculated security-selection-oriented performance attribution for DDA during the reporting period.



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.

The table below shows select market and currency strategy exposures as of quarter end.

Equity	31.2%
U.S.	4.3%
Canada	-2.8%
Europe (ex-U.K.)	12.5%
UK	5.8%
Asia Developed	0.9%
Emerging	10.5%

Fixed Income	12.9%
U.S. Treasury & Credit ^{1,*}	7.6%
Non-U.S. Treasury & Credit ^{1,*}	3.3%
Emerging	2.0%

Unencumbered Cash	29.4%
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¹Reflected as 10-year exposures

*Credit Detail	
U.S. Investment Grade Spread	7.1%
U.S. High Yield Spread	-1.9%
U.S. MBS Spread	0.0%
European Investment Grade Spread	3.5%
European High Yield Spread	0.0%

Active Currency	
U.S. Dollar (USD)	-8.8%
Canada Dollar (CAD)	0.0%
Other Americas	7.3%
Euro (EUR)	-6.9%
Switzerland Franc (CHF)	-6.0%
Great Britain Pound (GBP)	4.3%
Other Europe	-3.0%
Australia Dollar (AUD) and New Zealand Dollar (NZD)	-9.5%
Japan Yen (JPY)	5.2%
China Yuan (CNY)	7.3%
Asia (Excluding JPY and CNY)**	1.5%
Other	8.6%

**Select Exposures Detail	
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 Management Company has appointed WILLIAM BLAIR INVESTMENT MANAGEMENT, LLC, the asset management business of WILLIAM BLAIR & COMPANY, LLC., having its registered office at 222 West Adams Street Chicago, IL 60606, USA ("William Blair Group") as the investment manager for the Fund (the "Investment Manager").

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