William Blair SICAV
Dynamic Diversified Allocation Fund

Class J (H GBP)

William Blair

Quarterly Review

September 2018

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ISIN: LU0874273583

- **Dynamic Diversified Allocation is positioned cautiously in respect of systematic market risk (beta) and overall strategy risk as compared to the long-term expected averages.**
- **The near-term macro environment still presents risks that mitigate the attractiveness of fundamental opportunities across the opportunity set.**
- **Currency exposures and security selection have been the dominant drivers of recent performance.**

Performance Summary

The Dynamic Diversified Allocation strategy completed the quarter with negative performance, with aggregate market performing flat and currency exposures detracting and security selection adding. Within markets, the portfolio benefitted from exposures in emerging equities such as long Brazil equity and short South Africa equity. Negative contributors to performance in the market strategy were long exposures to Europe equity. Within currencies, long exposure to the Mexican peso and short exposure to the New Zealand dollar added value, while long exposures in the Turkish lira and Indian rupee detracted. Security selection also contributed positively, driven by International Leaders, U.S. Small Cap Value and U.S. SMID Cap Growth.

Strategy Positioning

Market strategy remains long of equities, with effective exposure of +24%, with net exposure slightly lower during the quarter. The strategy remains long of U.S., developed Europe, U.K., and emerging equities. Market strategy is modestly long of fixed income with a net exposure of +14%.

Within currencies, strategy remains long of currencies such as the Turkish lira, Philippine peso, and Indian rupee with the largest short positions in the Thai baht, Swiss franc, and New Zealand dollar.

Strategy Review and Outlook

Global equity prices finished the quarter higher than where they began. Across the world, however, returns varied quite markedly. The U.S. and Japanese (hedged) markets were strong—the S&P 500 index reached a new all-time high in September. Eurozone equities (hedged) were up, but less so. Emerging equities (hedged) were little changed. Bond yields in the United States and Europe rose a fraction of a percent. Japanese government yields remained very close to zero, under the influence of central bank buying, though the Bank of Japan slightly loosened the range in which it seeks to contain ultra-low yields. The dollar and most developed world currencies were strong relative to developing country currencies. Particularly dramatic currency weakness unfolded in Turkey and Argentina, both for domestic reasons, and there was some "spillover" to other emerging currencies that were viewed in the market as sharing similar vulnerabilities.

The quarter was challenging for our portfolio strategies—this originated from developments in Turkey affecting the Turkish lira to which we had long exposure going into the period. The largest detractor to performance was the lira, which is responsible for the entirety of negative contribution from currency exposures year-to-date. Performance also suffered from some other emerging market currency and equity positions, which weakened in correlated fashion, though less dramatically. However, we do not believe that the conditions are conducive to contagion in this space, since we view the lira situation as largely idiosyncratic. As a result, we further increased our lira exposure in August. Within developed equities, relative sector moves also challenged performance, as those more sensitive to growth (which we find mostly unattractive) outperformed those sensitive to value (more attractive sectors, in our view). The long-running outperformance of growth over value is a phenomenon that we believe has been heavily influenced by developed central banks' very easy monetary policies, and has created sector opportunities that are likely to be rewarded as this accommodation continues to recede. We slightly reduced our overall equity exposure through the quarter.

In our second-quarter letter, we outlined Turkey's issues and the rationale for our long exposure to the deeply undervalued lira. Turkey has high inflation—significantly above its central bank's target—and heretofore inadequate increases in official interest rates have been the dominant influence behind the lira's weakening. At that time (June), we had concluded that political interference in monetary policy coming from President Recep Tayyip Erdogan (who has a long-standing, highly unorthodox opposition to high rates to combat inflation) had waned—Mr. Erdogan had backed down in the face of market pressure and allowed the Turkish central bank to respond appropriately when a 5% interest rate rise was implemented in May. This conclusion was premature: a failure to act further on interest rates in July contributed to a renewed and sharp fall in the lira in August. A diplomatic row between Mr. Erdogan and U.S. President Donald Trump exacerbated the move. But, mostly, repeated days of sharp lira weakness met with no central bank response transformed the situation into a self-feeding rout in the lira, which touched an all-time low on 13 August at less than half of our estimate of fundamental value. Such dramatic deviations have been seen before, such as the Russian ruble in 2014 under the combined influence of a steeply falling oil price and Russia's geopolitical actions in Ukraine that alienated it from western nations. We largely stood aside as the ruble fell in 2014, introducing long exposure thereafter. With the Turkish lira, we established exposure early (for the reasons given above), which had a significantly larger negative performance impact.

Exchange rate extensions away from value of this magnitude are highly compelling investment opportunities and the foundation of our investment process is to capture returns from the correction of large deviations from fundamental value. Not many of them become as extreme as in the case of the lira (or the ruble), but we calibrate risk budgets so that we can appropriately respond to these, even if short-term performance effects are lumpy. Despite the dramatic fall in the lira, we had the capacity to either increase or reduce our strategy exposure subsequent to its drop; and our response in mid-August was to increase the position, making it the largest currency exposure in the portfolio at quarter-end. In September, the central bank raised its policy rate by another 6.25%, probably scarred by the market reaction of the prior month. This hike came despite Mr. Erdogan's continued rhetoric of opposition, and thus (again) it demonstrates some return to orthodox policy-making even if the president seeks to maintain distance from it. Given Mr. Erdogan's sphere of influence in Turkey, which includes the finance ministry and the central bank, we would again conclude that the large tightening was essentially sanctioned by the president behind the scenes. The lira strengthened in September, though considerable headwinds remain.

Several other emerging currencies moved in correlated (though less dramatic) fashion to the lira, including some we find attractive like the Mexican peso, Indian rupee, South African rand, and Russian ruble. The conventional wisdom behind this "spillover" effect was that any signs of slowing growth, problematic inflation, and/or current account deficits (which require external financing) highlighted these currencies as vulnerable to a fate similar to that of the lira's. We have this incidental higher correlation factored into our short-term "Outlook" risk model as a macro theme, but we do not believe that causation is robust here. As outlined, the Turkish lira's (dominant) problem has arisen from domestic policy interference and (in)action in Turkey, and not from the influence of a common factor to which Turkey and other markets are exposed. In addition, other countries had not been mismanaging central bank policy in ways that copied the situation in Turkey. India and Russia raised interest rates in the quarter (and inflation in both countries is much lower than in Turkey). Mexico's real interest rate has risen this year as its inflation rate has fallen. Our exposures to these currencies also detracted in August, but recovered in September.

Elsewhere, geopolitical uncertainty in the form of trade disputes remained an influence. The U.S. administration's stance against the European Union and Mexico moved towards agreement (reducing risk), but not with China, where the threat of increased protectionism remains. Our exposure in China consists of a modest (hedged) long equity position, which is more than offset by short exposure to the yuan, which China's central bank has allowed to weaken quite significantly in the last few months, possibly as a retaliation to tariff threats from the United States.

We reduced our (long) exposure to British pound in July. Negotiations between the United Kingdom and the EU about "Brexit" are now approaching the deadline (though this could get delayed). Political incentives, as outlined in our previous letter, mostly point towards a soft Brexit—the preservation of much of the barrier-free trade that has been the situation under EU membership. But we have long believed that uncertainty and heightened risk would be "back-loaded" towards the end of the negotiation timetable—as difficult agreements often are—and in fact have been postponed to the last hour.

As central banks, led by the Federal Reserve with the European Central Bank some way behind (and the Bank of Japan a long way behind), continue to edge conditions of extreme monetary accommodation back towards normalization, we believe that vulnerabilities in capital markets may become apparent. This is a significant reason we have maintained our total equity exposure at a relatively low level (and we slightly reduced "beta" in the quarter), and why we also maintain protection in the form of optionality, which is across equity, currency, and fixed income, to protect against general market downside. However, it is not the case that global equities or developed equities are overvalued in aggregate at this time, which is why we remain on the correct (long) side of price versus fundamental value overall. Where we see more of a dislocation as a result of years of easy central bank policy is in sovereign fixed income (bond buying programs have heavily distorted bond yields away from fundamental values in recent years, and continue to do so) and between certain equity sectors where—as mentioned previously—sectors sensitive to growth (such as IT) have gained sustained support from ultra-easy policy at the expense of those sensitive to value (such as financials). These large and sustained dislocations are more vulnerable to reversal, and our strategy is well positioned for this.

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 risks 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 for the quarter.

Periods ended 30/09/2018	**Quarter**	**YTD**	**1 Year**	**Since Inception***
William Blair SICAV – Dynamic Diversified Allocation Fund (Class J H^{GBP})	-1.41%	-2.28%	-1.38%	1.69%
JP Morgan Cash Index United Kingdom (3M)	0.22%	0.60%	0.69%	0.58%
U.K. CPI + 5%**				7.67%

*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 UK 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.

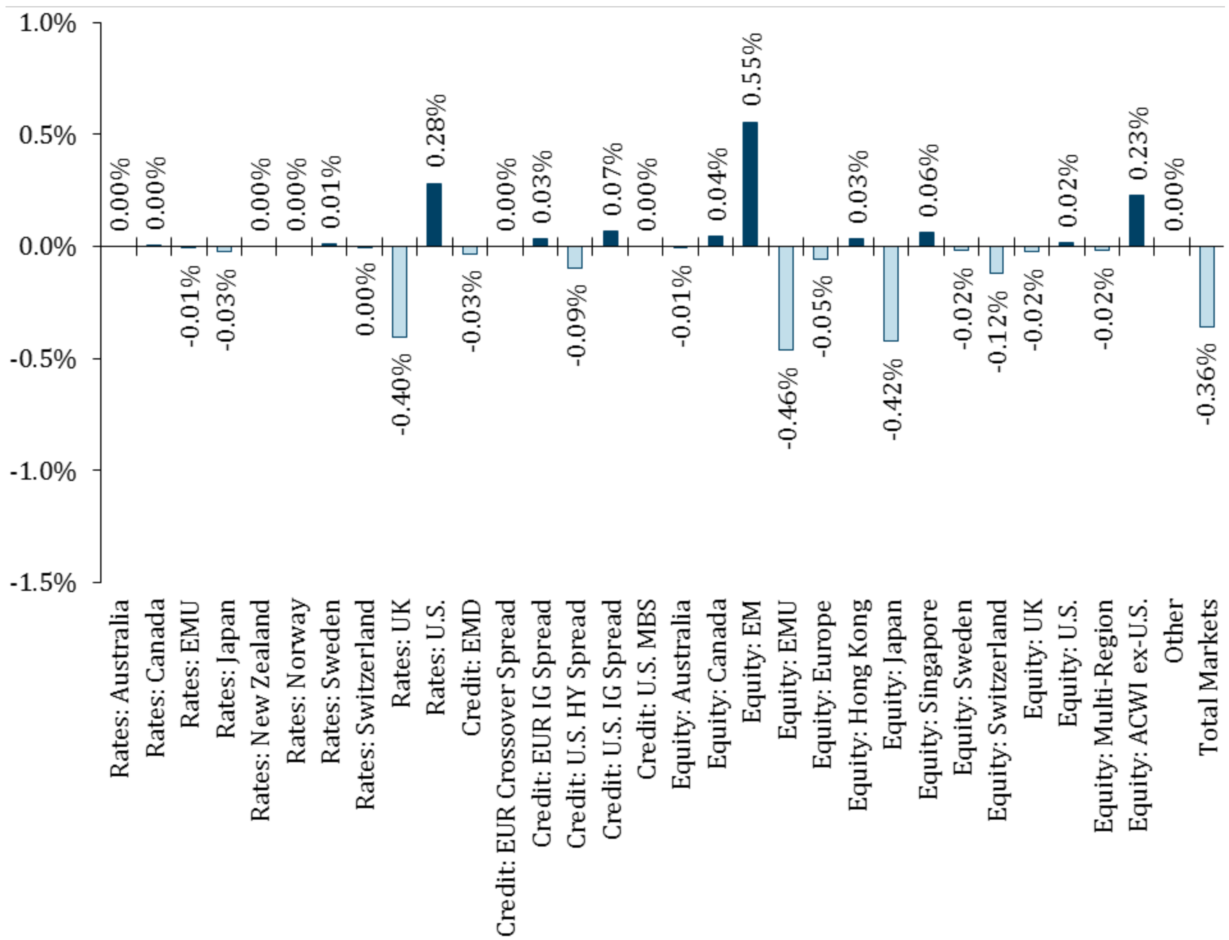
The below table shows the calculated regional performance attribution of DDA SICAV by asset segment for the reporting period.

Dynamic Diversified Allocation 3Q 2018	Equity	Rates	Credit	Currency	Security Selection	Residual / Other	Total
North America	0.06%	0.29%	-0.03%	0.00%	0.43%		**0.75%**
Developed Europe	-0.68%	-0.40%	0.03%	-0.01%	0.00%		**-1.06%**
Developed Asia (ex Japan)	0.09%	0.00%	0.00%	0.21%	0.00%		**0.30%**
Japan	-0.42%	-0.03%	0.00%	-0.16%	0.00%		**-0.61%**
Emerging Markets	0.55%	0.00%	-0.03%	-1.82%	0.00%		**-1.29%**
Multi-Region	0.21%	0.00%	0.00%	0.00%	0.25%		**0.46%**
Residual/Other							**0.05%**
Total	**-0.19%**	**-0.14%**	**-0.03%**	**-1.78%**	**0.68%**	**0.05%**	**-1.41%**

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.*

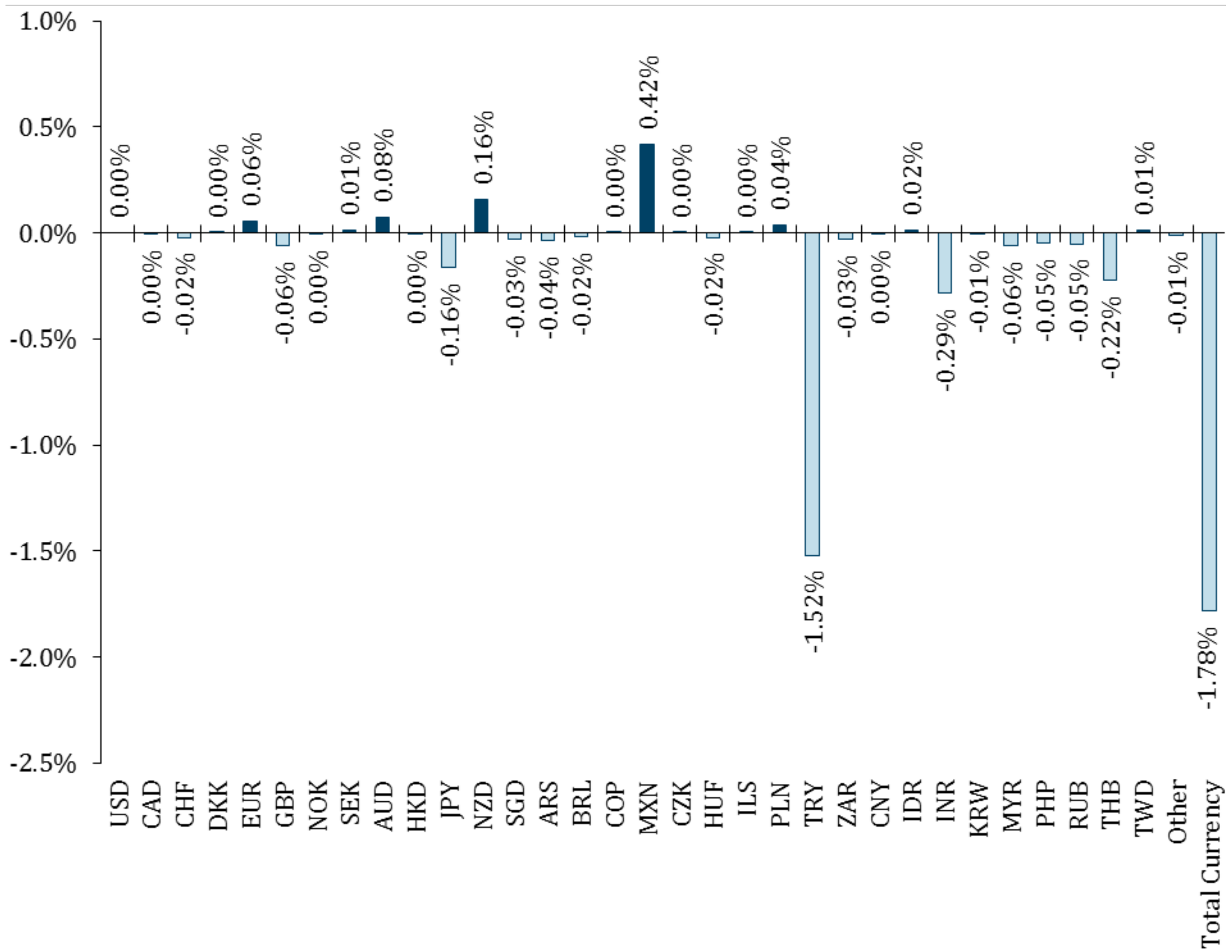
The below chart shows the calculated market segment performance attribution for DDA during the reporting period.



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.*

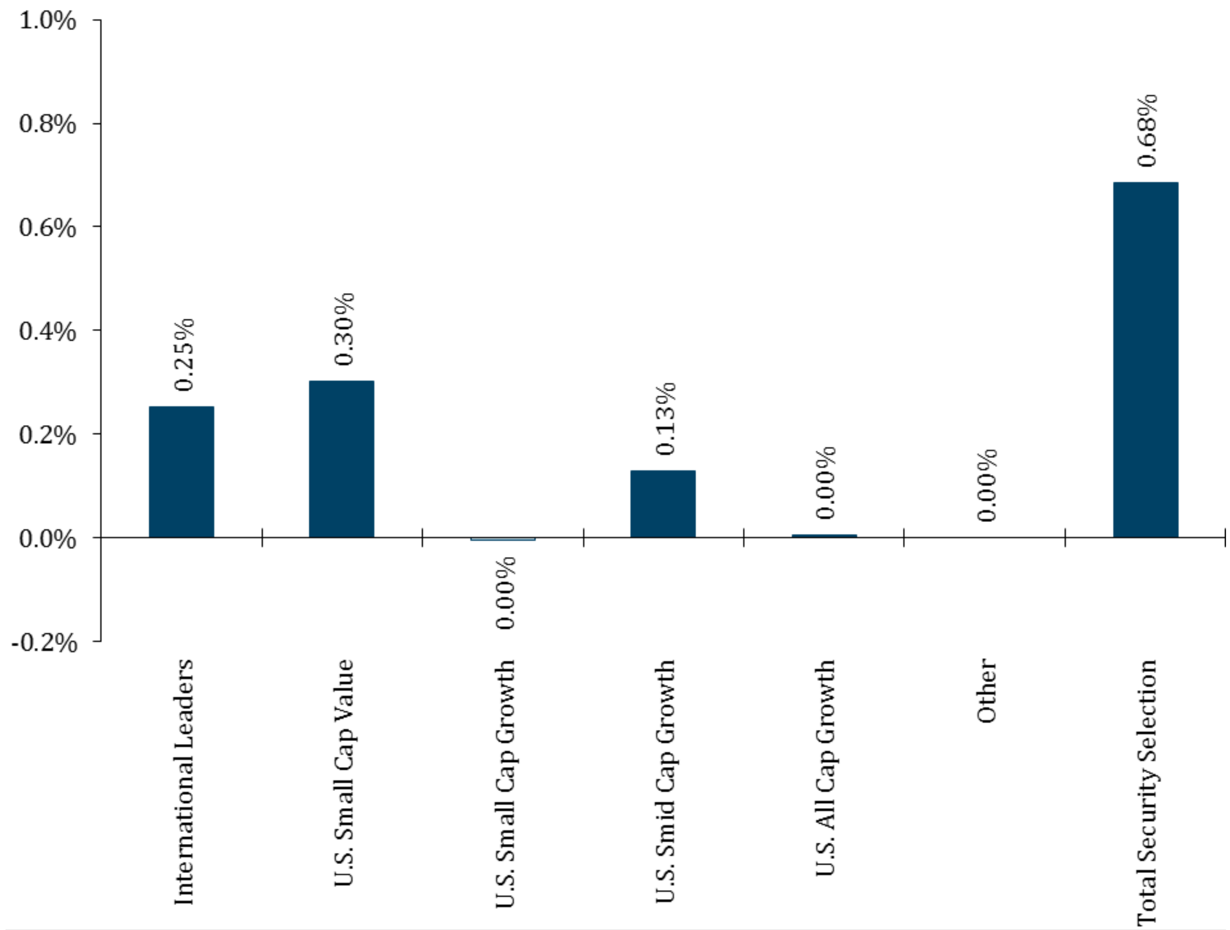
The below chart shows the calculated currency performance attribution for DDA during the reporting period.



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.*

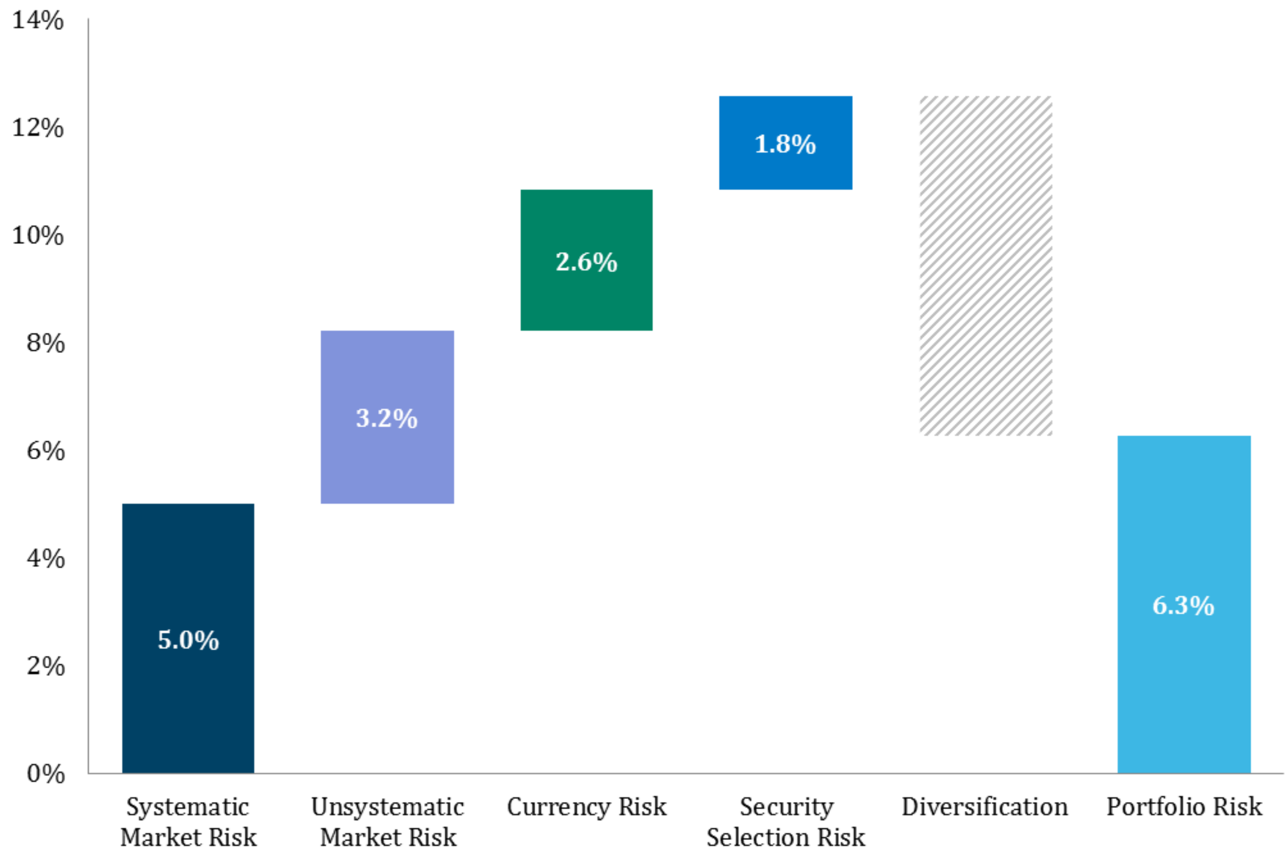
The below chart shows the calculated security-selection-oriented performance attribution for DDA during the reporting period.



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.
The DAS team's expectation of the portfolio's volatility as viewed through the team's proprietary Outlook risk model, in which the team's near-term risk assumptions are quantified.

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

Equity	24.1%
U.S.	4.5%
Canada	-2.8%
Europe (ex-U.K.)	8.3%
UK	4.2%
Asia Developed	2.1%
Emerging	7.8%

Fixed Income	14.3%
U.S. Treasury & Credit[1,*]	9.3%
Non-U.S. Treasury & Credit[1,*]	3.1%
Emerging	1.9%

Unencumbered Cash	33.3%

Active Currency	
U.S. Dollar (USD)	-7.4%
Canada Dollar (CAD)	0.0%
Other Americas	8.9%
Euro (EUR)	-5.1%
Switzerland Franc (CHF)	-7.6%
Great Britain Pound (GBP)	4.2%
Other Europe	-0.4%
Australia Dollar (AUD) and New Zealand Dollar (NZD)	-9.3%
Japan Yen (JPY)	5.1%
China Yuan (CNY)	-2.6%
Asia (Excluding JPY and CNY)	0.8%
Other	13.5%

[1]Reflected as 10-year exposures

[2]Additional currency exposures by largest expected contribution to portfolio risk

**Credit Detail*	
U.S. Investment Grade Spread	*7.8%*
U.S. High Yield Spread	*-0.6%*
U.S. MBS Spread	*0.0%*
European Investment Grade Spread	*3.4%*
European High Yield Spread	*0.0%*

Select Exposures Detail[2]	
Turkish Lira (TRY)	*11.8%*
Mexican Peso (MXN)	*5.5%*
Polish Zloty (PLN)	*2.5%*

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.

Important Disclosures

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The Management Company has been appointed as the management company of WILLIAM BLAIR SICAV, a "société d'investissement á 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° 98806 and approved by the CSSF as an undertaking for collective investment in transferable securities (UCITS) in accordance with the EU directive 2009/65/EC, as amended (the "Fund").

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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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 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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