# William Blair SICAV
# Dynamic Diversified Allocation Fund

## Class J (USD)

William Blair

Quarterly Review

March 2019

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- **Global equities remain mildly attractive in aggregate, however the near-term macro environment presents thematic and geopolitical headwinds, somewhat dampening the attractiveness of risky assets**
- **Recent guidance from central banks has shifted market expectations to (at least) a pause in policy tightening, which may lead to a continued low volatility environment**
- **Recent changes in strategy have been to slightly increase risk, though the strategy remains positioned with below average risk and slightly below average equity beta**
- **The strategy maintains downside protection to select emerging currencies (Chinese yuan, Philippine peso, Indian rupee)**

**Performance Summary**

The Dynamic Diversified Allocation strategy completed the quarter with positive performance, with market exposures, currency exposures, and security selection all contributing. Within markets, the portfolio benefitted from long exposures to U.S., Singapore and global equities. Negative contributors to performance in the market strategy were short exposures to Canadian and Japanese equities. Within currencies, short exposures to the Swiss franc and euro and long exposure to the Russian ruble and Mexican peso added value, while short exposure to the Thai baht and long exposure in the Swedish krona detracted. Security selection contributed, driven primarily by International Leaders, Emerging Markets Growth and U.S. Small Cap Value.

**Strategy Positioning**

Market strategy remains long of equities, with effective exposure of +26%. 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 +12 %.

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

**Strategy Review and Outlook**

Global equities rebounded in the first quarter of 2019 and reversed almost all of their steep falls from the previous three months. The MSCI All Countries World Index (hedged into U.S. dollars) gained 12.5% this quarter after falling 12.3% last quarter; the low point was recorded on 24 December. Most developed equity markets performed in line with each other, though Japan trailed the rest. Emerging equities bounced almost as much as developed world markets, having fallen by slightly less in the previous quarter as well. Brazil was one of the stronger emerging stock markets, which was notable since it had defied other markets by also appreciating last quarter. Sovereign bonds rallied modestly despite strong equities and a return to risk-seeking sentiment. Ten-year government yields in Germany and Switzerland re-entered negative territory for the first time in three years. We reduced (sold) bond exposure in February as falling yields offered even worse value.

In the fourth quarter of last year we were able to achieve positive performance amid significant equity market drops, and this was primarily due to the triple aspect of 1) a low overall equity beta, 2) net beneficial nonsystematic market exposures (e.g., being long and short in various global equity and bond markets), and 3) currency exposures that performed strongly and were not correlated with systematic market moves.

In addition to our equity exposure being lower than average, we have for some time had convex—or nonlinear—elements to our systematic market strategy, such that our portfolio equity exposure falls if markets do, and rises if they recover. Some of this came from long put option exposure, but a larger share of it originated from a practice of replicating how such option exposures work without the trading of actual options. Simply put, we have adopted a deliberate practice of selling down equity exposure as the equity market falls and repurchasing during recoveries.

This practice does not owe its rationale to fundamental value-versus-price consideration, since it moves market exposure contrary to changes in the size of valuation opportunity. Rather, it is a risk management–oriented active decision we have employed that arises out of the concerns that we have about the systematic market environment detailed at length in our recent paper, "Navigating a Troop of Gorillas"[1]. The market implications of our analysis in this area are that we expect a generally below-par return environment for global equities looking forward, and furthermore expect it to be punctuated by protracted adverse moves that may be exacerbated by the unwinding of rules-based strategies in the marketplace and a potentially severe shortage of liquidity in such episodes (indeed, these aspects characterized the market upsets in the first and the fourth quarters of 2018). Therefore, we desire the combination of low (but positive) exposure to those equities that are fundamentally attractive, and an ability to further lower exposure in a timely manner contemporaneously, since it is not easy to know in advance about the advent of negative shocks such as those just referenced. The equity markets that have valuation support are in Europe in the developed world and include Brazil, China, and Vietnam in the developing world.

A significant part of our concern about market downside is also rooted in the gradual but definite withdrawal of excess monetary looseness from developed world central banks. However, monetary authorities are adaptive to market developments and have, in recent years, displayed a repeated tendency to accede changes in monetary settings and expectations to those same market developments. This was also the case in the latest bout of weakness—both the U.S. Federal Reserve and the European Central Bank quite swiftly adjusted their communication that changed market expectations significantly more firmly towards "lower [easier] for longer". The Fed, which had been expected to continue to increase its policy interest rate in 2019, is now no longer expected to move rates up because of this changed communication. The ECB reintroduced the possibility of quantitative "refinancing operations", which was a cheap loan scheme deployed a few years prior, intended to boost credit.

While it is likely that these accommodating actions greatly assisted the market bounce in the current quarter, we believe that the ceding of control of policy to what is essentially market sentiment is not a good development, and may eventually be significantly dangerous if and when markets conclude that central banks can, in fact, do little to rescue sentiment. Therefore, beyond the option replication strategy outlined above, we are not inclined to chase equity rallies upwards by accumulating even more systematic exposure. As a result, we would not anticipate portfolios participating greatly in

[1] William Blair Investment Management. "Antecedent Analysis: Navigating a Troop of Gorillas" November 2018

market rallies, and we consider it a greater imperative to protect against downside.

Currencies tended to exhibit little correlation with the move up in equities in the first quarter. Emerging currencies, for example, appeared to be influenced more by idiosyncratic developments than a “risk on” wave, which has sometimes provided correlated support. We made two changes to currency strategy in the period that reduced exposure to currencies where we concluded that geopolitical risks had increased and were stacked against otherwise attractive valuation opportunities.

We reduced long exposure to the Turkish lira in March, with the issue at hand being Turkey’s planned purchase of an anti-aircraft missile defense system from Russia. Since Turkey is a member of the NATO alliance, other NATO member leaders, most vocally the United States, are opposed to Turkey’s plan and have started to consider various sanctions or other retaliatory methods. Turkey’s president, Recep Tayyip Erdogan, is publicly committed to the Russian arms deal and based on prior behavior is not likely to back down. On the U.S. side, we believe that the Trump administration, U.S. Congress, and the Departments of Defense and State will also likely escalate their opposition. This situation may therefore gain prominence as a "Trump versus Erdogan” confrontation. Market participants’ most recent memory of such a dispute (concerning Turkey’s detention of a U.S. national on contested espionage charges through 2018) was that it coincided with large weakness in the lira. While we firmly believed that other issues were overwhelmingly responsible for the currency’s weakness in 2018 (and that the same reasons are not present today), there remains a danger that market memory will link lira weakness to rising geopolitical tension with the United States. The lira exposure remains long but less than half of what it was coming into the fourth quarter of last year.

We also again reduced long exposure to the British pound and U.K. equity at the end of the quarter—this time going flat of both and entirely stepping out of their respective valuation opportunities. The rationale for these changes was (again) Brexit (the U.K.’s withdrawal from the European Union). In this regard, U.K. Prime Minister Theresa May has lost a large amount of endowment power (political authority) such that although her government reached an agreement with the EU on withdrawal in 2018, it has not been possible for the PM to get this ratified by the U.K. legislature, as many members of parliament oppose the government’s draft. In a game-theoretical sense, the threat strategy—what players hold out as the alternative if they do not get their wishes—of the various political actors (this includes factions within the U.K. legislature, not just “The U.K.” and “The EU”) is for the U.K. to leave without any agreement, which would likely be a market-negative shock. Although that is overwhelmingly not a favored outcome of the various political factions in the U.K., they differ considerably on their preferred outcomes. Thus, we observe the dynamics at work as similar to a multi-lateral game of “chicken”, involving incompatible objectives, with “no deal” as the common threat. If players gain confidence that they themselves will not be seen as predominantly culpable for a “no deal” outcome, then the probability of it transpiring (the game of chicken ending in a crash) rises. Prime Minister May’s very weak endowment power, and the attendant growing consensus that she will be blamed, also points to a greater danger of “no deal”.

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 for the quarter.

| ***Periods ended 31/03/2019*** | **Quarter** | **YTD** | **1 Year** | **3 Year** | **Since Inception*** |
|---|---|---|---|---|---|
| William Blair SICAV – Dynamic Diversified Allocation Fund (Class J$^{USD}$) | 3.47% | 3.47% | 3.09% | 4.16% | 2.83% |
| ICE BofAML 3M T-Bill | 0.60% | 0.60% | 2.12% | 1.19% | 0.96% |
| U.S. CPI Index + 5%** | | | | | 6.84% |

*Inception: 30/06/2015
**Long-Term Return Objective

*The primary benchmark for this composite is the ICE BofAML 3-Month U.S. Treasury Bill Index, which is an unmanaged market index of U.S. Treasury securities maturing in 90 days that assumes reinvestment of all income. The U.S. 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.*

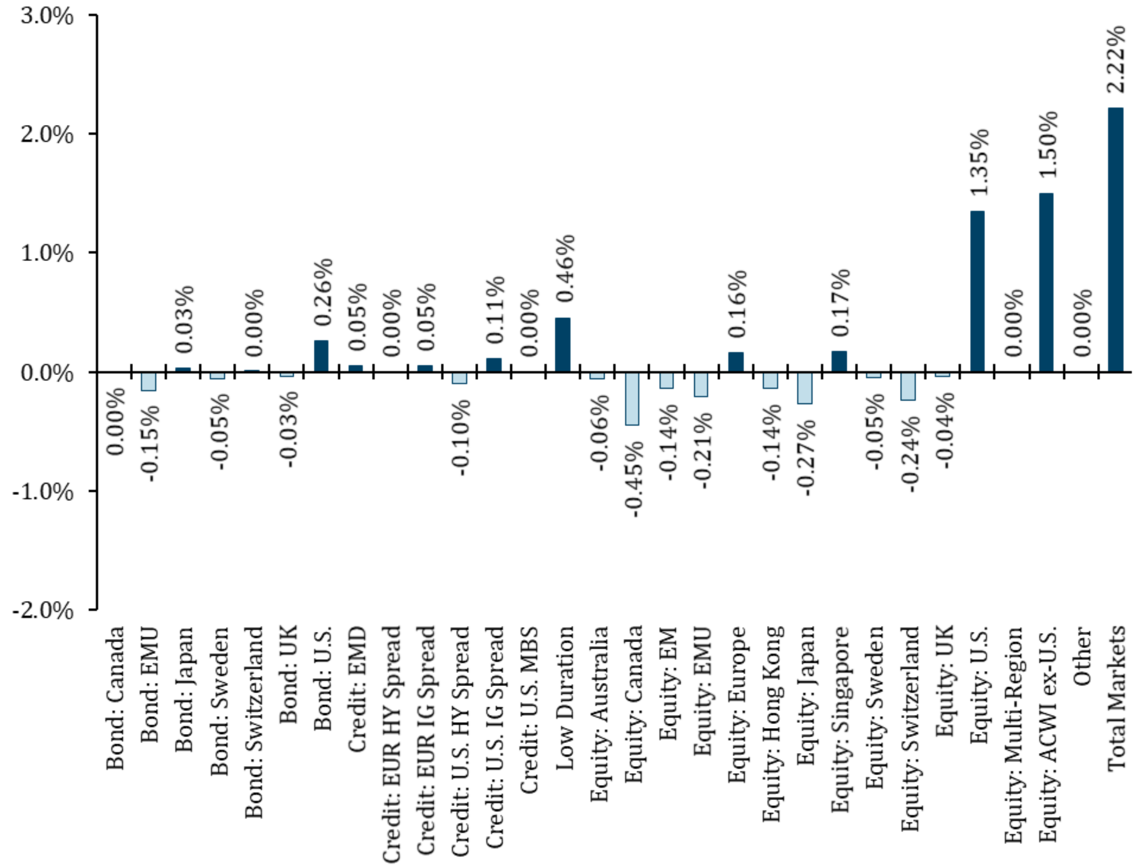
The below table shows the calculated regional performance attribution of DDA SICAV by asset segment for the reporting period.

| | |
|---|---|
| **Total (%)** | **3.5** |
| | |
| **Equity** | **1.6** |
| North America | 0.9 |
| Europe | -0.4 |
| Asia | -0.3 |
| Emerging | -0.1 |
| Other | 1.5 |
| | |
| **Fixed Income** | **0.6** |
| North America Rates | 0.3 |
| Europe Rates | -0.2 |
| Asia Rates | 0.0 |
| Emerging Market Debt | 0.1 |
| Credit | 0.1 |
| Low Duration | 0.5 |
| | |
| **Currency** | **0.3** |
| North America | 0.0 |
| Europe | 0.2 |
| Asia | -0.2 |
| Emerging | 0.3 |
| | |
| **Security Selection** | **0.9** |
| | |
| **Residual** | **0.1** |

***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.*

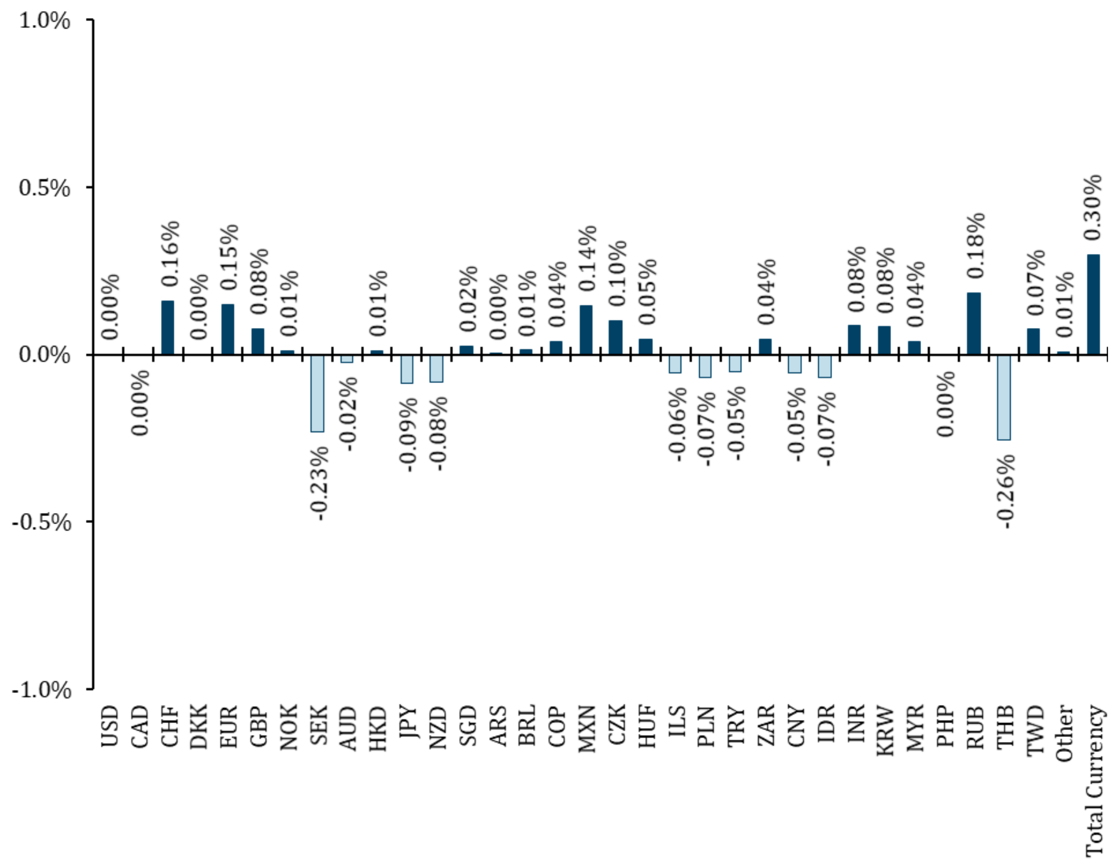
The below chart shows the calculated market segment performance attribution for DDA during the reporting period.




***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.*

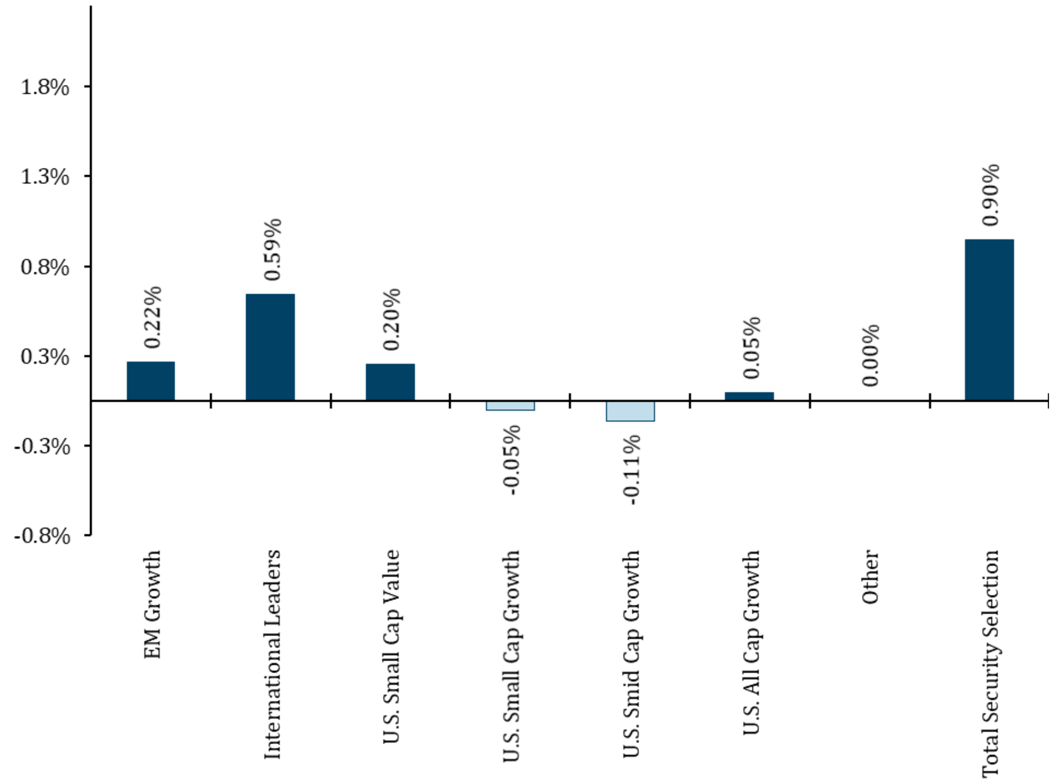
The below chart shows the calculated currency performance attribution for DDA during the reporting period.




***ource:*** *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.*

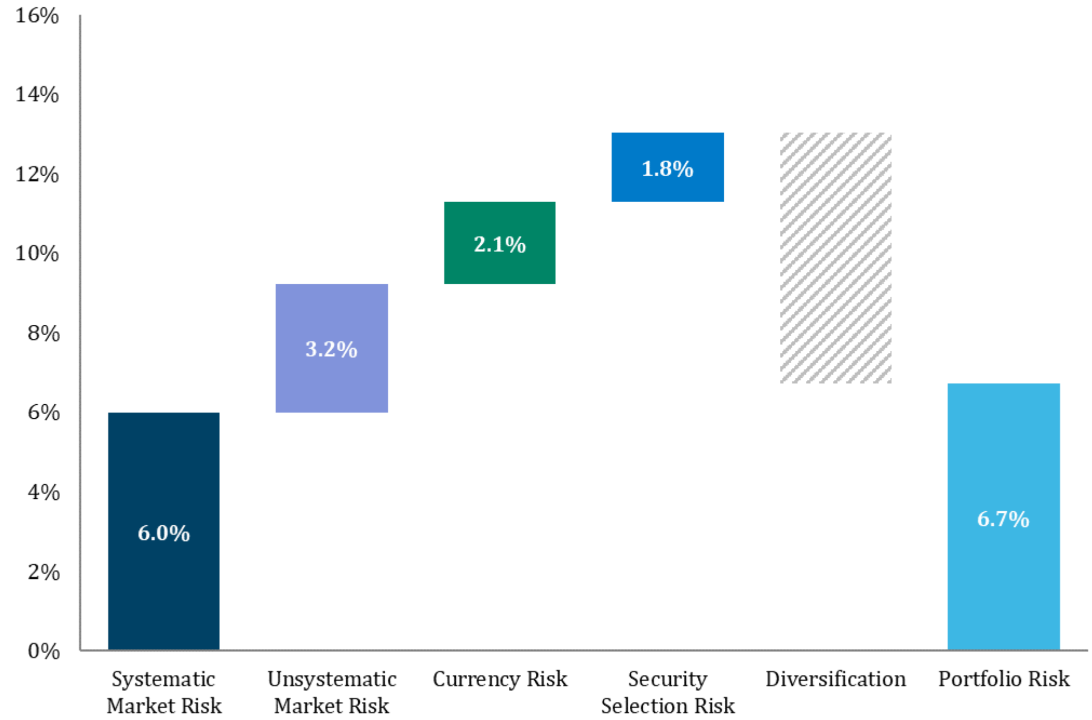
The below chart shows the calculated security-selection-oriented performance attribution for DDA during the reporting period.




***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** | **26.4%** |
|---|---|
| **U.S.** | 4.8% |
| **Canada** | -2.7% |
| **Europe (ex-U.K.)** | 8.1% |
| **UK** | 0.4% |
| **Asia Developed** | 2.1% |
| **Emerging** | 13.7% |

| **Fixed Income** | **11.6%** |
|---|---|
| **U.S. Treasury & Credit**[1,*] | 13.2% |
| **Non-U.S. Treasury & Credit**[1,*] | -3.5% |
| **Emerging** | 1.9% |

| **Unencumbered Cash** | **22.5%** |
|---|---|

| ***Credit Detail** | |
|---|---|
| *U.S. Investment Grade Spread* | *5.3%* |
| *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%* |

| **Active Currency** | |
|---|---|
| **U.S. Dollar (USD)** | -7.0% |
| **Canada Dollar (CAD)** | 0.0% |
| **Other Americas** | 9.7% |
| **Euro (EUR)** | -6.8% |
| **Switzerland Franc (CHF)** | -9.3% |
| **Great Britain Pound (GBP)** | 0.0% |
| **Other Europe** | 4.6% |
| **Australia Dollar (AUD) and New Zealand Dollar (NZD)** | -11.0% |
| **Japan Yen (JPY)** | 5.1% |
| **China Yuan (CNY)** | -1.7% |
| **Asia (Excluding JPY and CNY)** | 7.9% |
| **Other** | 8.4% |

| ***Select Exposures Detail*** [2] | |
|---|---|
| *Philippine peso (PHP)* | *9.4%* |
| *Indian rupee (INR)* | *7.6%* |
| *Turkish Lira (TRY)* | *5.1%* |

[1]Reflected as 10-year exposures

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

*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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