

William Blair SICAV  
Dynamic Diversified Allocation Fund

Class I (USD)

*William Blair*

Quarterly Review

June 2019

Brian D. Singer, CFA, Partner  
Thomas Clarke, Partner

ISIN: LU0874269805

FOR PROFESSIONAL INVESTORS ONLY – NOT FOR RETAIL USE OR DISTRIBUTION

- **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**
- **Central banks have shown a sensitivity to market declines and a willingness to verbally support equity markets and depress bond yields; the key takeaway is not that central banks continue to do so, but that they are having to do so at more frequent intervals**
- **We remain reluctant to assume significant aggregate long equity exposure in portfolios because, overall, our analysis leads us to expect relatively meagre equity returns and largely unpredictable negative shocks to the downside**
- **In currencies, recent strategy changes have mostly been to amplify existing exposures—the largest long exposures are the Philippine peso and Singapore dollar, while the largest short exposures are the Thai baht and Swiss franc**

### 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 Canada and Japan equities. Within currencies, long exposure to the Philippine peso and Turkish lira added value, while short exposure in the Thai baht and Swiss franc detracted. Security selection contributed, driven primarily by International Leaders and Emerging Markets Growth.

### Strategy Positioning

Market strategy remains long of equities, with effective exposure of +28%. 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 +16 %.

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

The beginning of the second quarter saw global equity markets retaining the buoyancy they had exhibited throughout the first quarter. In some cases—the U.S., Canada, Australia, Switzerland—country indices reached new highs. In May, however, most equity prices suffered renewed declines, some of which were quite steep, but the downside was smaller than that seen in the final months of 2018, and the weakness more short-lived. In June, most markets rallied again. For the quarter, the return of the MSCI All Countries World Index (hedged into USD) was 3.4%. Emerging markets were, in aggregate, weaker, and in the developed markets, Japan underperformed both the U.S. and Europe. The strongest markets were Russia and Greece. Safe-haven government bond yields moved aggressively lower in May, driven by changing interest rate expectations, and several more European sovereign 10-year yields became negative, joining those of Germany, Switzerland, and Japan. Currencies exhibited low volatility, and most exchange rate movements were small; the British pound and New Zealand dollar were among the weakest, and most emerging market currencies performed better than the U.S. dollar, after taking into account interest rate carry.

We have observed for some time that a large part of the influence on equities, when they have been rising, has been central bank policy. This includes direct communication from monetary authorities about what they might do, as well as changes in market expectations ahead of such communication when investors collectively predict what central bank committees might do. More specifically, the perception that the Federal Reserve and the European Central Bank will continue to act to contain equity declines and fuel price recoveries has become pervasive. Linking the developments in equities and bonds in the last three months reveals as much, and repeats a pattern very similar to what happened in the fourth quarter of 2018 and the first three months of this year. As stocks fall—as they did in May, and also last October-December—interest rate markets sharply revise downward monetary expectations, changing them from expected rate increases, to no changes, to cuts, and to longer periods at low or negative levels. In both recent episodes, this adjustment has mostly happened before central bank spokespeople have commented. Subsequently, more dovish (than before) statements from Fed Chairman Powell and ECB President Draghi confirm these changed expectations—anchoring them at lower levels, after which equities rebounded.

We have opined that such apparent “ceding of control” of policy to market sentiment is not a good thing, even though it has ostensibly been effective if its aim was indeed to underwrite stock markets. What appears to have developed is that the “cycle” outlined previously has recurred with increasing frequency; the May 2019 market downturn produced a response from central banks (ratifying more dovish monetary assessments) after less time and after a smaller price decline than the downturn seen at the end of 2018. In this sense, it is less of an issue in our eyes that central banks can support markets, than that they are *having* to do so at more frequent intervals. While we find some equity markets

fundamentally attractive (several in Europe and developed Asia-Pacific, also Brazil, India, Vietnam), we remain reluctant to assume significant aggregate long equity exposure in portfolios because, overall, our analysis leads us to expect relatively meager equity returns and largely unpredictable negative shocks to the downside that seem to increasingly depend on additional ratchets in expectations toward ever greater monetary accommodation, and which likely require major central banks to confirm the same.

Furthermore, global economic activity is slowing and has been doing so for more than a year, which is reflected in industrial Purchasing Managers’ Index reports across the world. Such indicators are consistent with almost flat growth (no expansion) on an aggregate basis. While this data provides justification for easier monetary expectations (justification other than just market price weakness), it delivers a significantly less inducing backdrop to repeated equity recoveries.

In the current environment, we have continued our stance of carrying low total equity exposure (systematic “beta”), and employing linear option replication as a means of navigating what we’ve discussed previously. The latter aspect of this stance (linear option replication) resulted in methodically selling equity exposure in May, in response to weakness, and then making a repurchase (of some of this) in June. The performance effect is desired to be similar to owning put option “protection” on equities—cushioning the volatility of portfolio performance relative to market volatility by reducing downside capture but then re-engaging with upside.

Contrastingly, we have looked to increase risk exposure to areas of our investment universe where we believe that opportunities are not exposed to systematic risk, and this has mostly involved our currency strategy. Just prior to the start of the quarter we made some changes that increased long exposures in the Norwegian

krone and Singapore dollar, and oppositely increased short exposure in the Swiss franc, euro, and New Zealand dollar. In April, we further widened long positions in the Colombian and Philippine peso, offset by larger negative exposure to the Australian dollar and Thai baht. By having some balance of both long and short exposures to emerging currencies (and by implication both long and short developed currencies too), the strategy guards against a dominating emerging/developed factor that can become more sensitive to systematic risk. Generally, we remain long emerging currencies and short developed currencies, but recent strategy changes have not been in this direction. Also, the breadth and diversification of the currency universe, and a general absence of net correlation with global equities as far as emerging versus developed currency is concerned, has been manifest in 2019.

Lastly, we continue to navigate idiosyncratic opportunities and risks. Brazil has for some time been our largest single equity position (not that it is inappropriately large in an absolute sense). Beyond valuation, our optimism on Brazil stems from a gradual but material improvement in regulatory direction that has unfolded over recent years. A current policy initiative to reduce the public finance burden of pension provision, that previous governments had been unsuccessful in implementing, appears significantly more probable under the current administration. We reduced this position in early May when political developments introduced greater doubt as to the progress of this reform, but re-established it the same month as its passage got back on track.

In the U.K., for the second time in 2019, we cut our long exposure (to flat) to the British pound (GBP) because of the politics around Brexit, U.K.'s departure from the European Union. We had flattened our GBP exposure in March ahead of what was then the deadline for "deal or no deal" (no deal referring to the more damaging severing

of trade links between the two if the U.K. legislature failed to ratify a draft agreement), but we restored it after the deadline got extended. However in May, repeated inability to secure this ratification led to U.K. Prime Minister Theresa May resigning. Her replacement is likely to be more tolerant of "no deal" that, we concluded, once again increased the adverse risk to the GBP. We also bought U.K. fixed income as part of this navigation, since a disorderly Brexit would likely put downward pressure on yields. Our base case is not for the U.K. to leave without any withdrawal agreement, but we think the risk of this is higher than is priced into market expectations.

We also slightly re-increased our long position in Turkish lira (TRY), which is the most deeply undervalued currency in which we have a position. We have been cautious in responding to this valuation opportunity for a number of reasons, many of which remain as headwinds. The primary adverse headwind to the TRY has been President Erdogan's accumulation of executive power, which has degraded the market-beneficial influence of Turkey's institutions (central bank, judiciary, media, and political opposition parties) over time. In this area, developments took a more positive/less negative turn with the election of the mayor in Istanbul on 23 June; the election was originally held in March and resulted in a narrow win for the opposition (to Turkey's ruling party) candidate, but Turkey's electoral authority (believed to be under the influence of President Erdogan) annulled the vote and ordered it to be repeated in June. The repeat election was a landslide win for the opposition that President Erdogan conceded on behalf of his party. We believe that this result indicates that there is more of a check on President Erdogan's power than was previously apparent with the implication that Mr. Erdogan may, all else equal, be less able to influence Turkey's democratic institutions going forward.

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.

<i>Periods ended 30/06/2019</i>	<b>Quarter</b>	<b>YTD</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>Since Inception*</b>
William Blair SICAV – Dynamic Diversified Allocation Fund (Class I <sup>USD</sup> )	3.29%	6.77%	7.07%	4.66%	4.13%	4.96%
ICE BofAML 3M T-Bill	0.64%	1.24%	2.31%	1.38%	0.87%	0.70%
U.S. CPI Index + 5%**						6.46%

\*Inception: 26/03/2013

\*\*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](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.*

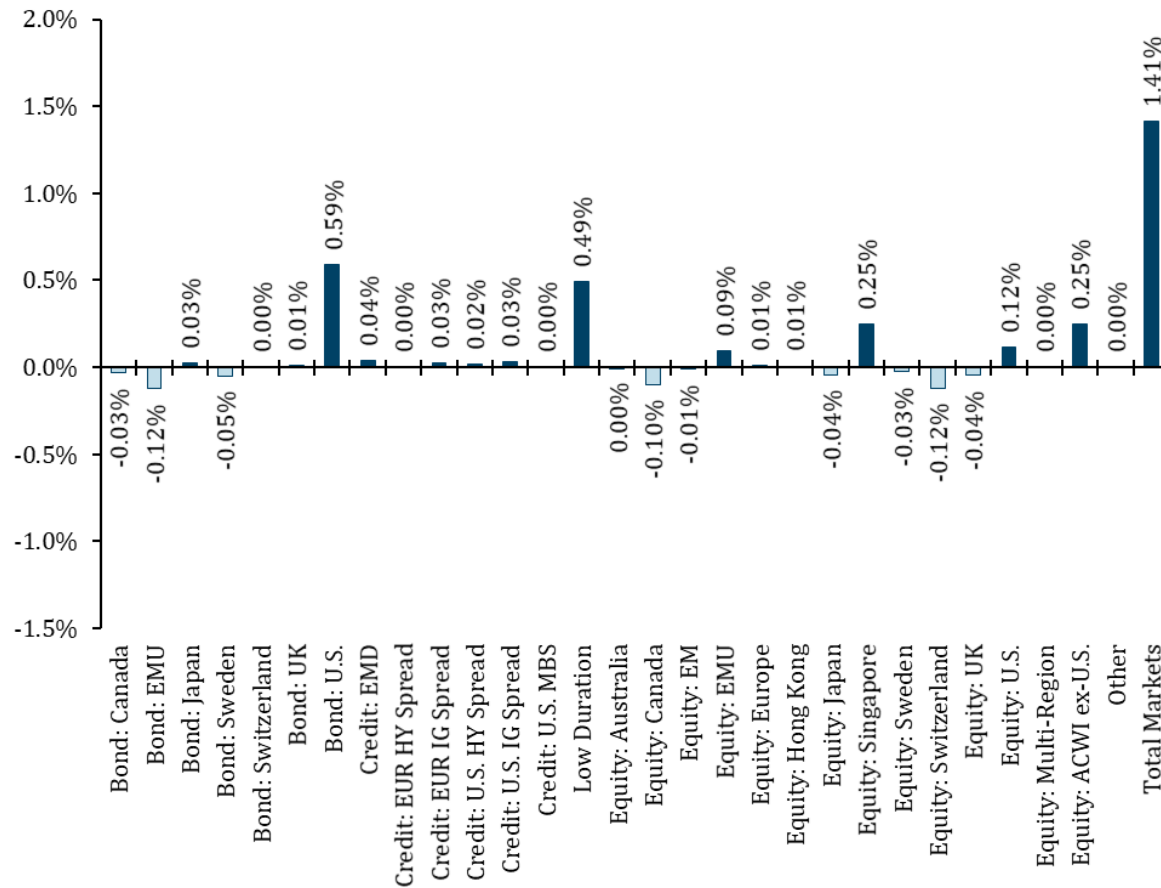
The below table shows the calculated regional performance attribution of DDA SICAV by asset segment for the reporting period.

<b>Total (%)</b>	<b>3.3</b>
<b>Equity</b>	<b>0.4</b>
North America	0.0
Europe	-0.1
Asia	0.2
Emerging	0.0
Other	0.2
<b>Fixed Income</b>	<b>1.0</b>
North America Rates	0.6
Europe Rates	-0.2
Asia Rates	0.0
Emerging	0.0
Credit	0.1
Low Duration	0.5
<b>Currency</b>	<b>0.7</b>
North America	0.0
Europe	-0.2
Asia	0.2
Emerging	0.6
<b>Security Selection</b>	<b>1.4</b>
<b>Residual</b>	<b>-0.2</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.

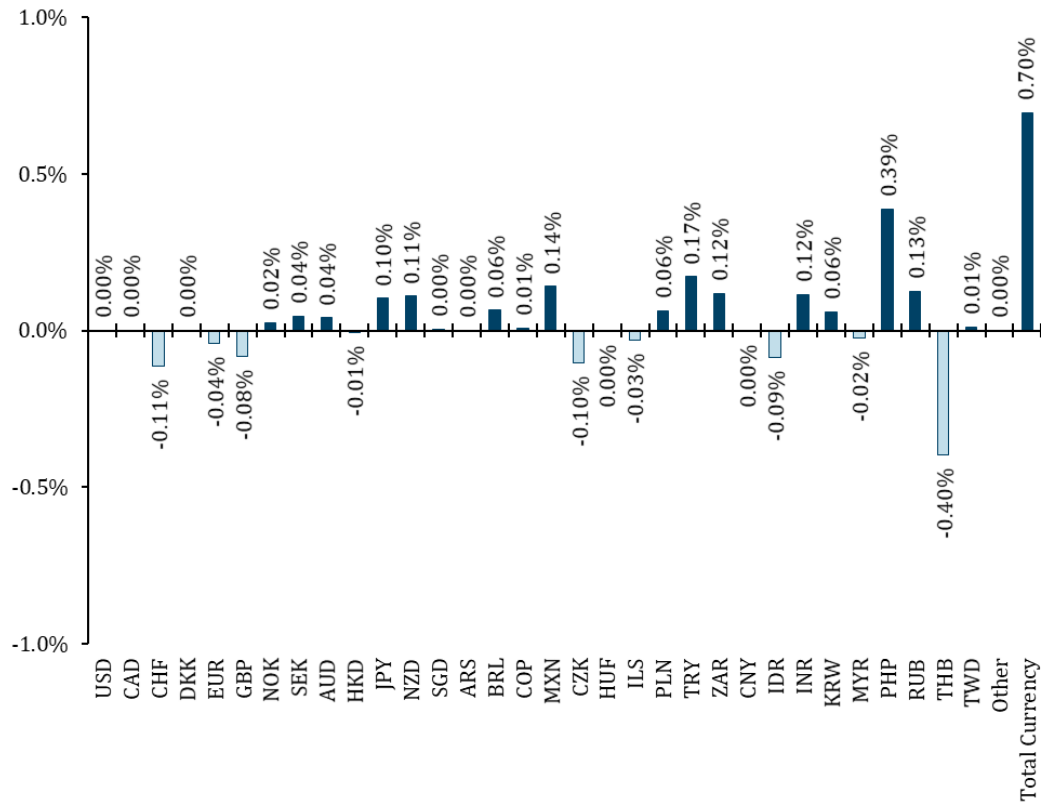


Source: Bloomberg and DataStream.

**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.



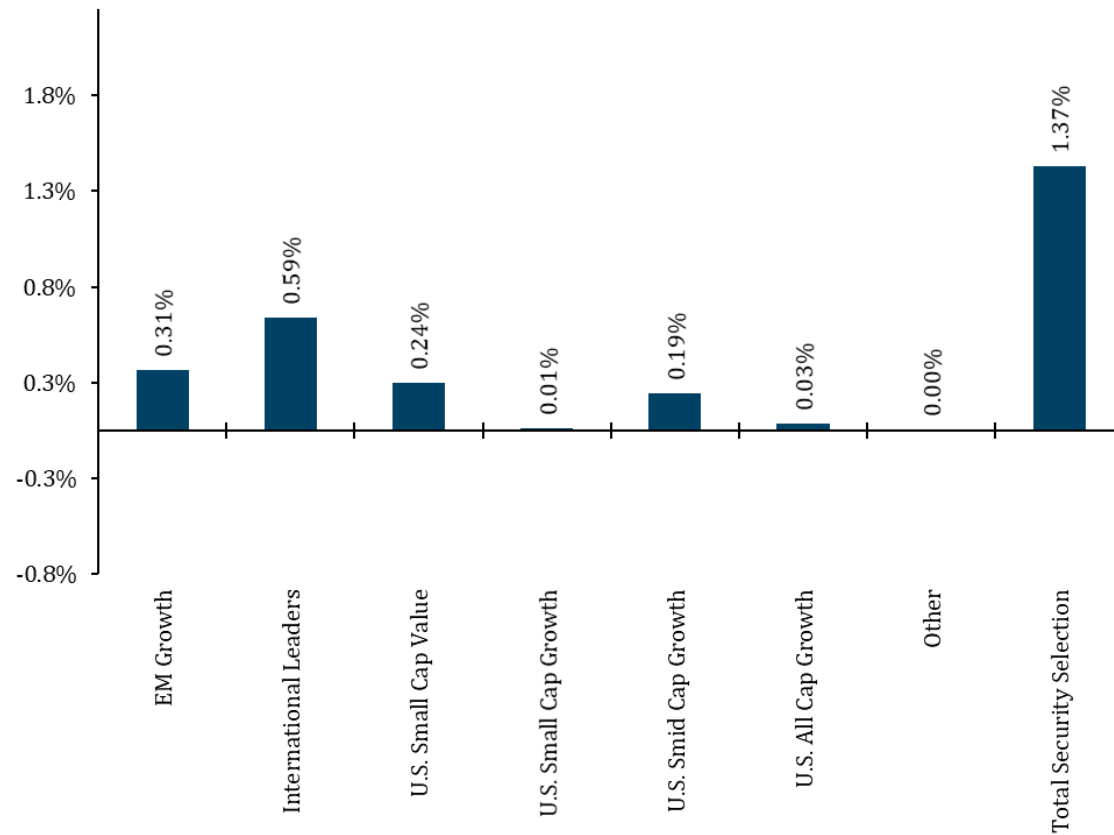
The below chart shows the calculated currency performance attribution for DDA during the reporting period.



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.

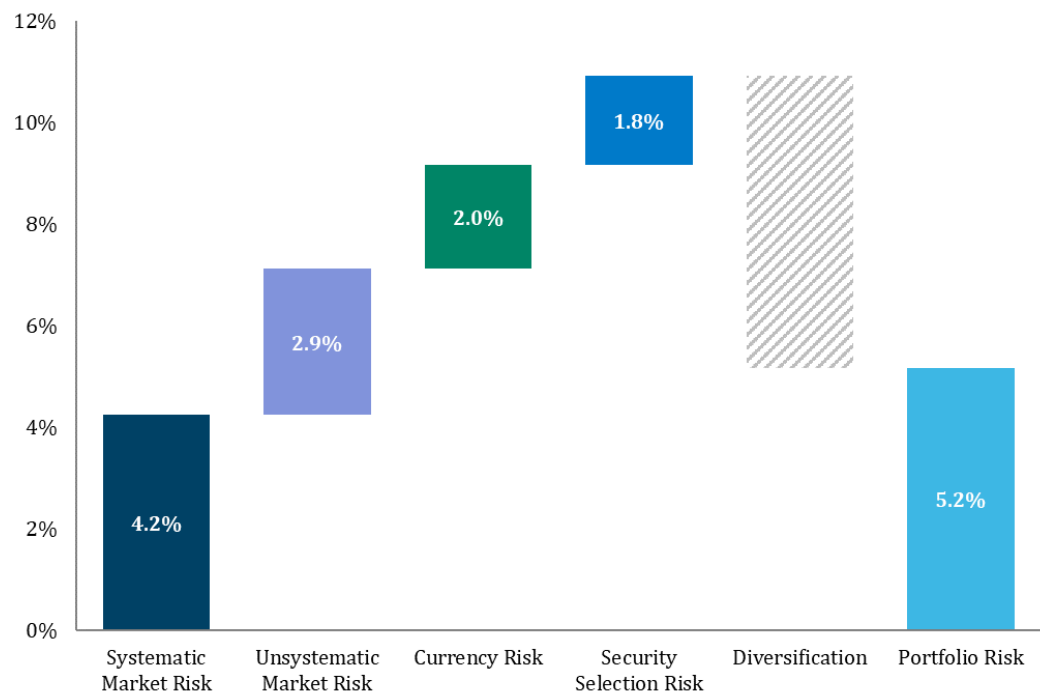
The below chart shows the calculated security-selection-oriented performance attribution for DDA during the reporting period.



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.

<b>Equity</b>	<b>27.8%</b>
U.S.	4.9%
Canada	-2.7%
Europe (ex-U.K.)	7.0%
UK	3.0%
Asia Developed	4.6%
Emerging	11.1%

<b>Fixed Income</b>	<b>15.7%</b>
U.S. Treasury & Credit <sup>1,*</sup>	15.0%
Non-U.S. Treasury & Credit <sup>1,*</sup>	-1.3%
Emerging	2.0%

<b>Unencumbered Cash</b>	<b>22.9%</b>
--------------------------	--------------

<i>*Credit Detail</i>	
U.S. Investment Grade Spread	5.4%
U.S. High Yield Spread	0.6%
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)	-8.1%
Canada Dollar (CAD)	0.0%
Other Americas	11.2%
Euro (EUR)	-6.8%
Switzerland Franc (CHF)	-9.3%
Great Britain Pound (GBP)	0.0%
Other Europe	7.2%
Australia Dollar (AUD) and New Zealand Dollar (NZD)	-12.7%
Japan Yen (JPY)	5.1%
China Yuan (CNY)	-1.7%
Asia (Excluding JPY and CNY)	5.2%
Other	9.9%

<i>Select Exposures Detail<sup>2</sup></i>	
Turkish Lira (TRY)	6.8%
Philippine Peso (PHP)	11.0%
Swedish Krona (SEK)	6.8%

<sup>1</sup>Reflected as 10-year exposures

<sup>2</sup>Select currency exposures by largest expected contribution to portfolio risk

**Important Disclosures****The Fund, the Management Company and the Investment Manager**

This document has been prepared and issued by FUNDROCK MANAGEMENT COMPANY S.A., a "société anonyme", incorporated under the laws of the Grand Duchy of Luxembourg having its registered office at 33, rue de Gasperich, L-5826 Hesperange and registered in the R.C.S. Luxembourg under n° 104196 (the "Management Company"). The Management Company is authorised and regulated by the Luxembourg Supervisory Authority of the Financial Sector (the "CSSF") as the management company of UCITS (defined below) under the EU directive 2009/65/EC, as amended.

The Management Company has been appointed as the management company 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 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").

**Fund Distribution**

The Fund is currently registered for public offering only in the following countries: Austria, Denmark, Finland, France, Germany, Ireland, Luxembourg, Norway, Sweden, Switzerland and the UK. Therefore the Fund may not be registered to be marketed in your jurisdiction or may only be marketed to certain categories of investors in your jurisdiction.

**Marketing Materials**

William Blair Group makes no representations that these marketing materials are appropriate or available for use in any jurisdiction. This document is not intended to be published or made available to any person in any jurisdiction where doing so would result in contravention of any laws or regulations applicable to the recipient. This document shall constitute a marketing communication only in the countries in which the Fund has been registered for public offering. In any other countries, laws and regulations may restrict the access to the present website. The access to the present website is not to be considered as marketing communication or as the marketing of the shares of the Fund if such access to such information and documentation through a website would be unlawful.

**Fund Documents**

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.

**Recipients of this Document**

The present document is not intended to be directed to those categories of investors to which the communication of this document would be unlawful in any country according to any applicable law or regulation. This document is intended for the use of the persons to whom it is addressed, being persons who are Professional Investors as defined in the Markets in Financial Instruments Directive (2004/39/EC), understood as financial advisers, insurance companies, asset managers, discretionary wealth managers, banks and other authorised intermediaries. Therefore, its content should not be used by retail clients. These materials are not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is therefore not intended for private individuals or those who would be classified as retail clients. William Blair Group does not accept responsibility for retail clients accessing information intended exclusively for Professional Investors.

**No Investment Advice**

This document has been produced for information purposes only and is not to be construed as investment advice or a solicitation or an offer to purchase or sell investments or related financial instruments to any recipients. The investments in the Fund may not be suitable for all recipients. This document does not contain personalized recommendations or advice and is not intended to substitute any professional advice on investment in financial products. Recipients of this document should make their own investment decisions based upon the Fund Documents listed above (which can be obtained free of charge) and in accordance with their own financial objectives and financial resources and, if in any doubt, should seek advice from independent professional advice as to risks and consequences of any investment

**Risks** - Recipients of this document should be aware of the risks detailed in this paragraph.

Please be advised that any return estimates or indications of past performance on this document are for information purposes only. Past performance is not necessarily a guide to future performance and no assurance can be made that the profits will be achieved or that substantial losses will not be incurred. The value of shares and any income from them can increase or decrease. An investor may not get back the amount originally invested. Where investment is made in currencies other than the investor's base currency, the value of those investments, and any income from them, will be affected by movements in exchange rates. This effect could be unfavourable as well as favourable. Levels and bases for taxation may change. Further specific risks may arise in relation to specific investments and you should review the risk factors very carefully before investing. Intended risk profile of the Fund may change overtime. The Fund is designed for long-term investors. For the most current month-end performance information, please visit our web site at [sicav.williamblair.com](http://sicav.williamblair.com).

**William Blair's Opinion**

This document contains the opinions of William Blair, as at the date of issue based on sources believed to be reliable. However, William Blair does not guarantee the timeliness, accuracy, or completeness of the information contained in this document. All information and opinions may change without notice.

**Property of William Blair**

This document is the property of William Blair and is not intended for distribution or dissemination, directly or indirectly, to any other persons than those to which it has been addressed exclusively for their personal use. It is being supplied to you solely for your information and may not be reproduced, modified, forwarded to any other person or published, in whole or in part, for any purpose without the prior written consent of William Blair.

**Liability**

To the extent permitted by applicable law, William Blair will accept no liability for any direct or consequential loss, damages, costs or prejudices whatsoever arising from the use of this document or its contents.

Copyright © 2017 William Blair. "William Blair" refers to William Blair & Company, L.L.C., William Blair Investment Management, LLC, and affiliates. William Blair is a registered trademark of William Blair & Company, L.L.C."