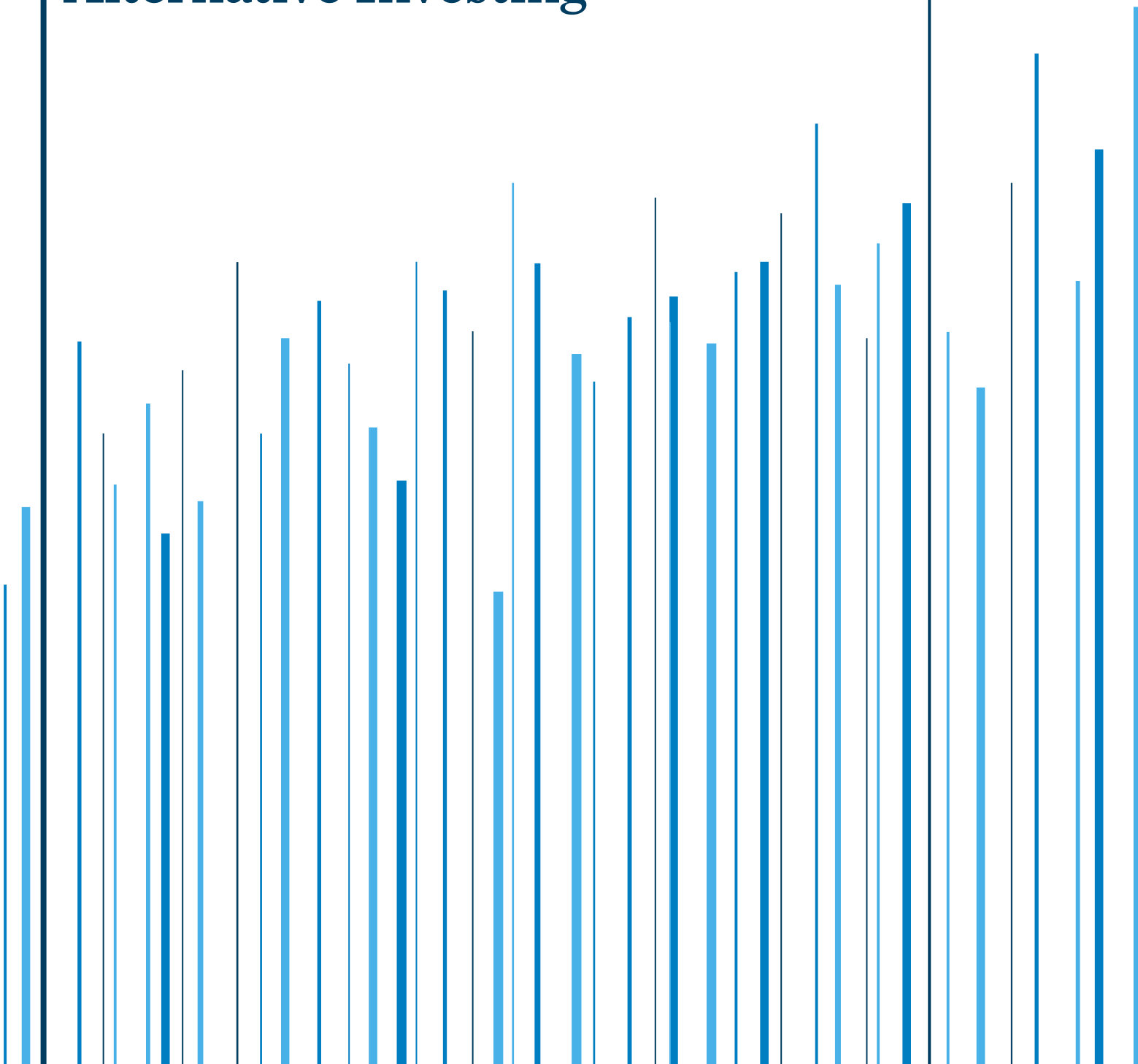


Read and learn

Alternative Investing

Video
Transcripts



What is the 2-minute argument for alternatives?

Alternative investments provide the opportunity to access different sources of return and the potential to better manage portfolio risk. (2:30 min)

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ALTERNATIVE INVESTING EDUCATION

*Brian Singer, CFA, Partner
Head of Dynamic Allocation Strategies Team*

William Blair's alternative investing video series at williamblairfunds.com/alternatives provides simple, short answers to frequently asked questions about alternatives and the William Blair Macro Allocation Fund. But for those of you who prefer to read rather than watch, we've compiled the video transcripts for you.

Brian Singer, CFA, well known for his pioneering advances in the active management of multi-asset and currency portfolios and co-portfolio manager of the William Blair Macro Allocation Fund, provides the brief and to-the-point answers to these questions.

WHAT IS THE 2-MINUTE ARGUMENT FOR ALTERNATIVES?



Alternative investments provide the opportunity to access different sources of return and the potential to better manage portfolio risk.

On one side of the Thames River in London is St. Paul's Cathedral, a nice, old, traditional institution. On the other side of the river is the Tate Modern museum, a nice, new, innovative and alternative institution, and that's much the same way that you can think about investing.

Investing for years has been traditional investing in equity assets, bond assets both in the U.S. and outside the U.S. Today, the universe has opened up quite broadly as we cross the bridge and go over into alternative assets. These alternative investments afford investors the opportunity to do many things that traditional investments are constrained from doing.

Alternative investments really afford the opportunity to access different sources of return and to manage risk better. When you look at alternatives you have the opportunity to take advantage of a liquidity premium through real estate, through private equity, through infrastructure. Many liquid assets actually provide superior returns. The liquidity premium is compensation for locking up their capital for an extended period of time, but that's not all alternative investments provide. Alternative investments provide through additional flexibility the opportunity to go long and short to isolate return streams and eliminate uncompensated risk.

For example, a manager can invest in Japanese equities and then sell the yen to eliminate the exposure to the currency. The manager could even go short the currency by selling more yen and be long the Japanese equity market and short the yen.

In this manner, alternative investments provide investors with the opportunity to very explicitly target the risks and returns that they believe they'll be compensated for and that they want. It really has opened up a tremendous universe for investors.

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Financial Advisors Only: To get more updates from Brian Singer and William Blair's Dynamic Allocation Strategies team, sign up for the Macro Investing Insights e-newsletter at williamblairfunds.com/macroemail >>

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WHY MULTI-ASSET STRATEGIES FOR ALTERNATIVES?



Investing across the asset classes can take advantage of macro developments around the world. This can complement the bottom-up diversification that exists in most portfolios.

Multi-asset investing brings something very powerful and very unique to a portfolio. Most portfolios have a significant amount of bottom-up diversification. What that means is most portfolios have many managers in each asset class selecting individual securities.



Adding a multi-asset manager affords the ability to navigate macro developments around the world.

Multi-asset investing invests across the asset classes, across U.S. equities, non-U.S. equities, U.S. and non-U.S. bonds, and across currencies, and multi-asset investing, by investing across asset classes, has the ability to navigate and take advantage of macro developments around the world, broader economic developments across regions, geopolitical developments, fiscal and demographic influences on asset prices, that are often hard to capture and understand on a bottom-up basis.

Adding a multi-asset manager affords the ability to navigate those macro developments around the world and complement the bottom-up diversification that already exists in most portfolios.

IS FUNDAMENTAL ANALYSIS ENOUGH?



Fundamental value can be described as a gravitational force that draws price toward it over time. It's like the tide. Today investors also need to pay attention to waves created by geopolitical and macro developments.

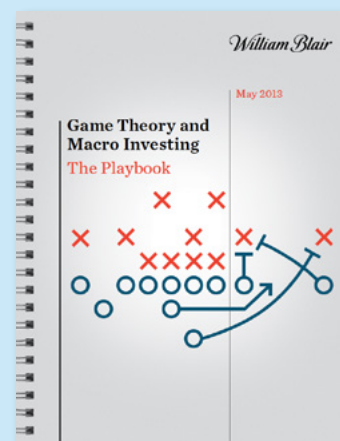
To understand fundamental investing, it may be interesting to think about the surface of the ocean. Imagine you're sitting on a dock and in the morning you look out and you see all the boats relatively low in the water. And as the day progresses those boats rise higher and higher and higher as the gravitational pull of the moon draws the water up and pushes those boats up. Fundamental value is like the tide. It is the long-term inexorable pull on price.

Think of fundamental value as what something is intrinsically worth, and that is a powerful gravitational force that draws price toward it over time. You always want to be on the right side of the tide. If the tide is going up, you want to own the asset. If the tide is going down, you don't want to own that asset.

Fundamental value therefore is a long-term investment tool, and you always want to be as an investor on the right side of the tide and not get distracted by the waves and the ripples. Thirty years ago the world was characterized by the Cold War. In fact, most of the last

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Fundamental value can be described as the tide. If the tide is going up, you want to own the asset. If the tide is going down, you don't want to own that asset.

half of the last century was dominated by the Cold War, and that was a very geopolitically stable period. But after the Cold War, the world has become now geopolitically unstable. It's not a bad thing but it does change the way investors need to think about investing.

Fundamental value remains the inexorable tide that pulls price toward it over the course of a number of years. It's no longer however necessary and sufficient to think of that as an investment tool. Now we need to think about it as necessary—always being on the right side of the tide—but not sufficient.

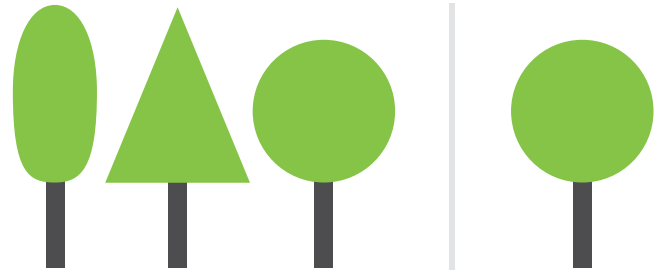
Sufficiency comes from understanding different disciplines that help us navigate a geopolitically unstable world. So fundamental value is the foundation of investing, but geopolitics and other macro developments sometimes create very significant waves that can buffet the boats. And a good investor needs to navigate those waves while capturing the inexorable pull of the tide.

BOTTOM-UP VS. TOP-DOWN PORTFOLIOS?



A case for why any portfolio needs both. Most portfolios today have adequate bottom-up diversification. Top-down investing is a means of being opportunistic.

Portfolio management can be thought about as top-down or bottom-up. Top-down investing is investing across asset classes around the world. Bottom-up investing is the most common and it involves selecting individual securities within an individual asset class. Any portfolio needs both, top-down and bottom-up portfolio management. Most portfolios have a good



A top-down manager looks at macro developments around the world, kind of like looking at the forest instead of just looking at the individual trees.

bit of diversification in a number of bottom-up investment managers.

Top-down investing complements bottom-up investing because it views the information from a different perspective and provides diversification within the portfolio. A top-down manager looks at macro developments around the world, kind of like looking at the forest instead of just looking at the individual trees. Moreover, it provides the flexibility to be opportunistic and take advantage of opportunities across the entire globe.

WHAT'S THE ROLE THAT CURRENCY MANAGEMENT PLAYS?



Many investors don't pay attention to currency exposure or consider them over short-term horizons. Currencies provide the potential to enhance return, and can be a powerful diversifier.

Almost every single portfolio has non-U.S. stocks and non-U.S. bonds, and along with those securities comes exposure to currencies. Sometimes that currency exposure is actively managed sometimes it's not.

From a fundamental perspective, investing in currencies can be very, very powerful. What we've determined is that fundamental value is a very powerful force drawing the exchange rate or the currency price toward it. And for that reason fundamental investing in currencies is a very important aspect of a portfolio.

Many investors really don't even pay attention to their currency exposures that exist in their portfolios. They

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UNIQUE CURRENCY MANAGEMENT APPROACH

- Fundamental valuation based currency management (not momentum-oriented like many managers)
 - Active, fundamental approach focuses on longer-term valuations not short-term price movements
 - Team uses relative purchasing power parity to identify fundamental value—this simply means that the exchange rate finds its fundamental value when it equates the prices of goods and services in different countries
- The Fund makes significant allocations to currencies
 - Investment universe includes 20 currencies worldwide
 - Maintains separate risk allocation to currencies, independent of capital market risk (50% of active risk in portfolio is expected to come from active currency management)

POTENTIAL BENEFITS

- **Diversifies an investment portfolio**
 - Provides a diversified source of alpha
 - Uncorrelated return stream versus equities and bonds seeks to reduce portfolio volatility over time
- **Seeks to enhance return potential**
 - Currency management seeks to provide meaningful, consistent contribution to Fund's performance
 - Allows team to take advantage of currency opportunities independently of market concerns

CASE STUDY: Indian Rupee

Investment team waits for value/price discrepancies to open up significantly before taking offsetting positions in currencies, especially riskier ones.

- The Fund has had an exposure to the Indian rupee since its inception (5/29/10) - fundamentals include highlighted rupee's undervaluation
- Negative market sentiment drove Indian rupee from 44 to 50 in summer 2015
- Negative momentum heightened rupee undervaluation and created significant investment opportunity

INVEST

Team begins systematic investment, significantly increases Fund's exposure to Rupee

BUILD

Fund's overweight rupee exposure contributes positive performance

Fund's total return significantly outperforms benchmark

19% (Total Return)

19% (Total Return)

120% Indian Rupee C1

120% Indian Rupee C1

Fund performance does not guarantee future results

focus only on the stocks and the bonds. Most investors actually look at the currencies from a very, very short-term perspective what's known as momentum driven type of framework, trying to anticipate where the exchange rate will move over short-term horizons.

We on the other hand take more of a fundamental approach because we feel that that fundamental value is a very, very powerful draw on price over time, and that's really a tremendous benefit. In the end, we find that currencies actually provide the opportunity to enhance return as price reverts to fundamental value, and they provide a very, very powerful diversifier to the rest of the portfolio.

DYNAMIC VS. PASSIVE INVESTMENT STYLES?



Dynamic is longer term and based on fundamental analysis. Dynamic investing responds to opportunities as they evolve and risks as they emerge.

Generally speaking, there are three ways to think about asset allocation: passive, tactical and dynamic. Passive asset allocation is just simply identifying a broadly diversified portfolio of stocks and bonds, perhaps U.S., perhaps global, but leaving those exposures unchanged over time.

Tactical asset allocation is more active, but it's active with a relatively short horizon. Tactical asset allocation involves trying to identify what prices will be over the course of the coming months or quarters and then buying and selling asset classes in anticipation of those price changes. Dynamic asset allocation is longer term in nature and is based on fundamental analysis. The fundamental analysis foundation determines intrinsic value and looks to benefit from the slow reversion of price to intrinsic value for each of the asset classes.

Today many people talk about risk balanced portfolios. A risk balanced portfolio is much like a passive asset allocation except it's a passive risk allocation. It's a risk allocation to equities and a risk allocation to bonds that is maintained over time. An alternative and one that we prefer is to dynamically manage risk in response to opportunities as they evolve and in response to risks as they emerge.

Over time, we feel that the dynamic management of risk in response to opportunities and in response to risk is a superior way to position a portfolio.

FROM WHERE DO YOU FUND ALTERNATIVE INVESTMENTS?



It depends on the alternative investment being funded and the objective of the alternative investment. Brian Singer provides a few examples.

Investors often wonder how to fund alternative investments. Well, it depends on the alternative investment that's being funded and the objective.

Some alternative investments are more growth oriented and those tend to be funded from the equity portion of a portfolio. Others tend to be more income, credit or risk minimizing in their orientation and those tend to be funded from the fixed income portion of the portfolio, but not all alternative investments fall into a single category.

Other alternative investments have the opportunity to go anywhere. They're opportunistic in nature and they can invest in equities, bonds, credit, currency, commodities. They can really roam the

universe and those tend to be funded on a pro data basis or in part from equity and in part from fixed income. So it really does depend upon the alternative investment that's being funded and the objective of the alternative investment.

HOW DO YOU ASSESS MULTI-ASSET FUNDS?

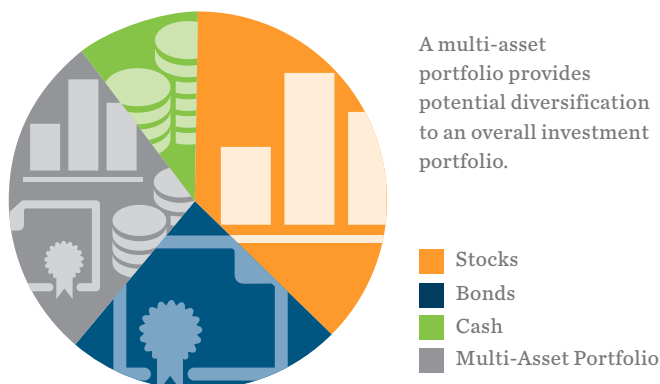


Evaluate a multi-asset portfolio for the potential diversification benefit it provides to the overall portfolio. Did it capture the upside and avoid the downside?

A multi-asset portfolio is introduced to a broader portfolio to provide top-down diversification. Because of that, the evaluation of a top-down or multi-asset portfolio needs to occur in two stages.

The first step is evaluation exactly like you would evaluate an equity or a bond portfolio. What's the return and what's the risk that was taken to get that return, and whether or not the active management of the portfolio actually contributed to the overall performance. But a multi-asset portfolio has an important second component and that's the diversification benefit that it brings to the overall portfolio.

A multi-asset portfolio often has significant ability to influence the ability to capture upside returns and avoid downside movements in the overall market and that's something that needs to be evaluated. Did it capture the upside and avoid the downside? And in that regard, what we're really talking about is the portfolio or the multi-asset manager's ability to diversify the broader aggregate portfolio.



MULTIALTERNATIVE VS. WORLD ALLOCATION?



Brian Singer explains the differences between the two leading alternative fund categories. Because it can go long and short, the Multialternative category has a lower correlation to equities.

Morningstar makes a distinction between Multialternative and World Allocation. The definitions are soft and there's some overlap between the two, but there are important differences in those two categories.

The Multialternative is exactly as the name suggests, a collection of multiple alternative investments. In other words, you'll find a portfolio that often goes long and short in equities, long and short in bonds, long and short currencies, maybe commodities, and bring all of that together in a go anywhere or opportunistic investment style. Because of that investment style, it tends to have a relatively low correlation with the equity market.

The World Allocation category on the other hand is a little bit more traditional or balanced. It will invest in equities and bonds and currencies around the world, maybe commodities, but generally speaking it will lean more to being long rather than to being long and short. Because of that construct, it tends to have a higher correlation with the equity market.

So in the end, there's a good bit of overlap between Multialternative and World Allocation, but the differences in the styles lead to different characteristics and the most important one is the lower correlation that exists with the Multialternative investment category.

About William Blair Macro Allocation Fund

HOW WOULD YOU DESCRIBE THE MACRO ALLOCATION FUND?



The William Blair Macro Allocation Fund is a “highly granular” fund that invests opportunistically with a focused risk management style.

The Macro Allocation Fund has a unique capability that’s designed to be a complement to an existing portfolio. It has a number of unique features. First, it invests at a macro level—equity markets developed and developing, bond markets, different credit categories and currencies, both long and short—to opportunistically take advantage of macro developments around the world. It does not invest in individual stocks or bonds in individual companies.

It is purely top down in nature. We invest from a fundamental perspective and what that means is we determine what fundamental value is and we opportunistically buy things that are priced below fundamental value and opportunistically sell things that are priced above fundamental value.

In the end, the portfolio is expected to have a volatility over time of about 10 percent. We don’t target 10 percent however. If there are tremendous opportunities out there, we’ll tend to take more risk.



STOCK MARKETS



BOND MARKETS



CURRENCIES

If there are very few opportunities, we’ll tend to take less risk, but over time it’ll be about 10 percent which is not dissimilar from a typical 60/40 balanced portfolio. Correlation with the equity market however will tend to be less than a typical 60/40 portfolio and the reason is because we go long and short in those asset classes and currencies.

So the portfolio is highly granular and invests in about 100 different markets and currencies around the world. It does so opportunistically with a very, very focused risk management style.

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Fund 101
William Blair Macro Allocation Fund

WHAT DOES THE FUND INVEST IN?
The William Blair Macro Allocation Fund is a broadly diversified fund that can invest in more than 100 different markets and currencies around the world. It does not invest in individual stocks or bonds of individual companies.

HOW DOES THE FUND INVEST?
If we believe prices are attractive, the Fund will opportunistically buy. If we think prices are unattractive, the Fund will sell. This ability to buy these markets and currencies that we find attractive and to sell what we believe is unattractive provides the potential to manage downside risk. Attractive prices help identify potential opportunities. But economic and political events can significantly impact prices, so the management team also monitors these developments to help navigate risks.

How we invest example: Japanese stock market
The Japanese stock market had been unattractive (large opportunity) for years, but we didn't invest because we believed economic reforms were required for long-term growth. A change in the government and fiscal policies in 2012/2013 created a more positive economic environment. Shortly after we invested in the Japanese stock market, prices rallied. Since then, the Fund has decreased Japanese stock market exposure given the rapid increase in prices (smaller opportunity).

PRICES	ECONOMIC/POLITICAL ENVIRONMENT	FUND INVEST?
Before 2012/2013 elections: Attractive	Economic reforms unlikely: Unattractive	No
After 2012/2013 elections: Attractive	Economic reforms likely: Attractive	Yes

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Fund Overview
William Blair Macro Allocation Fund

INVESTMENT OBJECTIVE
Long Term, Risk-Adjusted Total Return

FUND CHARACTERISTICS
The Fund seeks to replicate an index of global opportunities through active management across asset classes, geographic, currencies, and risk factors.

PORTFOLIO MANAGEMENT TEAM
Rick A. Saper, CFA, Partner
• 23 years experience
• Formerly, Chief Investment Officer
• U.S. University of Chicago
• U.S. Investment Company

Thomas Chalko
• 22 years experience
• Formerly, Chief Investment Officer
• U.S. University of Chicago
• U.S. Investment Company

RISK DISCLOSURES
The Fund is subject to the risks of global investing. The Fund is subject to the risks of global investing, including currency fluctuations, political risk, and economic risk. The Fund is subject to the risks of global investing, including currency fluctuations, political risk, and economic risk. The Fund is subject to the risks of global investing, including currency fluctuations, political risk, and economic risk.

HOW DOES THE FUND FIT INTO A PORTFOLIO?



The William Blair Macro Allocation Fund is designed to complement other top-down investments. The Fund augments fundamental analysis with geopolitical analysis to provide clarity on macro developments that most portfolios don't take into account.

The Macro Allocation Fund is designed to fit into a portfolio as a complement to existing top-down investment capabilities. Most portfolios or the typical portfolio has a number of bottom-up managers.

What that means is there are a number of managers picking individual securities and vetting individual bonds and individual stocks for inclusion in a portfolio. That has a lot of diversification embedded in it, but only from a bottom-up perspective. Most portfolios have a limited amount of diversification on a top-down basis. Most portfolios have a small team doing asset allocation across very coarse asset classes, U.S. equities, non-U.S. equities, U.S. bonds, for example.

The Macro Allocation Fund, however, introduces some important characteristics. First, it invests in about 100 different markets and currencies around the world. It is more granular. When we implement our strategies in the Macro Allocation Fund, we don't invest in the stocks or bonds of individual companies. Rather, we invest in securities that are broader index exposures or currency exposures.

Second, it has a significant amount of risk coming from active currency management. Often currency management is something that is left aside in portfolios. The Macro Allocation Fund has about half of its active risk in currency management.

That's important because it augments the opportunity set to enhance return, but currency management is very diversifying to the portfolio and it introduces something that not only has the potential to increase return, but has a tremendous diversifying contribution to the overall portfolio.

Finally, we're fundamental in our investment style, but we have a unique way of looking at the world that is geopolitical. When we augment our fundamental

analysis with the geopolitical analysis, it creates a powerful complement to most portfolios where those types of macro considerations aren't taken into account.

HOW DO YOU FUND AN ALLOCATION TO THE FUND?



The William Blair Macro Allocation Fund is broadly diversified, so it can be funded in several ways. But we expect the Fund's risk level to be similar to a balanced fund so its funding source could come from equities and bonds.

The Macro Allocation Fund is an alternative investment and typically goes into the alternative bucket of a portfolio. But it is a broadly diversified portfolio, and we find that it's funded in many different ways.

First, we find that funding comes pro rata from equities and bonds. Why is that the case? Well, the Macro Allocation Fund invests in equities and bonds and currencies all around the world, and over time tends to have a positive but very low correlation to the equity market. It looks a lot like a balance portfolio in terms of its risk level, and therefore, the funding source tends to be more balanced.

However, the Macro Allocation Fund is often considered something like diversified growth. Because it has a positive but low correlation to the equity market, it has growth characteristics to it, and because of those growth characteristics it also is funded from equities.

Finally, we're in a very low interest rate environment, and in a low interest rate environment, many investors are looking to put money in some place other than bonds. So they often pursue diversifying contributors to the portfolio. The Macro Allocation Fund does provide diversification because of its ability to go both long and short and because of the active currency management. And therefore, it is sometimes funded from the fixed income portion of the portfolio.

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HOW IS THE FUND CORRELATED TO OTHER ASSET CLASSES?



The Fund is designed to have a relatively low correlation to other asset classes. Over time, the Fund is expected to have a low correlation to equities, although that can change during periods of opportunities. Correlation to bonds is expected to be very low. The currency portion of the portfolio diversifies the rest of the portfolio and is expected to be a dampening force in the overall correlation of the portfolio with other asset classes.

The Macro Allocation Fund is a global portfolio that invests in equities, bonds and currencies all around the world. Moreover, it has the opportunity to go both long and short those equity, bond and currency markets. Because of that, the portfolio tends to have a relatively low correlation with any individual asset class.

For example, with respect to equities, we expect the correlation to be below a typical 60/40 or a balanced portfolio over time. It won't always be below that. Sometimes in fact the correlation might be high if we perceive equity markets to be very, very cheap and we do buy equities in the portfolio for fundamental reasons.

On the other hand, that correlation could actually be much lower or even negative if we find that equities are very expensive and we decide to be net short the equity market. With respect to bonds, the correlation would tend to be low anyway just because bonds aren't that volatile.



The William Blair Macro Allocation Fund has about half of its active risk in currency management.

Equity positions and currency positions will tend to be the dominant risk contributors. However, in a current environment where interest rates are so low, we actually have the portfolio positioned to be short bonds, and as short bonds, we actually have a negative—a negative correlation to the bond market today.

Finally, I think it's important to understand that the currency management of the portfolio, a very unique aspect of the portfolio, is a significant portion of not just the opportunity that's out there but also the risk that we incorporate into the portfolio. But that currency risk is very diversifying to the rest of the portfolio and because of that, it tends to always be a dampening force in the overall correlation of the portfolio with other asset classes.

When you look at the Macro Allocation Fund, it's best to think of it as a diversifier and the diversification comes from its breadth of investment universe and the ability to go both long and short in all of those markets and currencies.

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HOW DOES THE FUND COMPARE TO OTHER ALTERNATIVE STRATEGIES?



The William Blair Macro Allocation Fund's top-down, fundamental investment style can help diversify the alternative bucket in many portfolios. And its flexibility and active currency management approach have the potential to complement the overall portfolio.

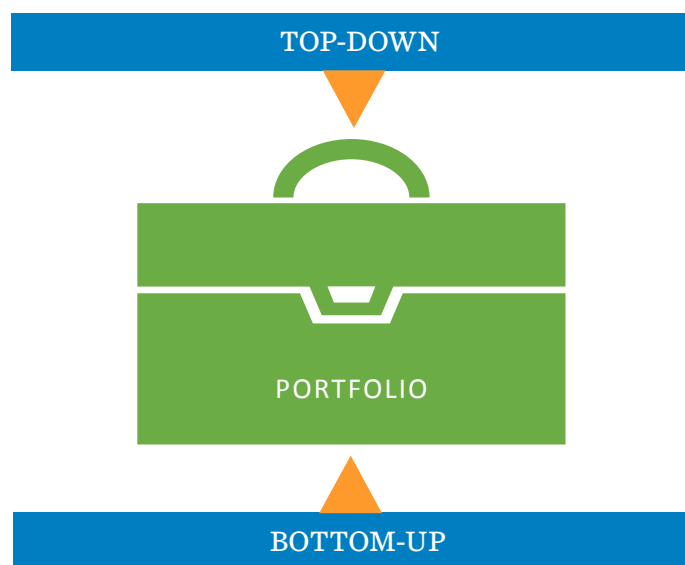
The alternative arena is a very ill-defined aspect of a portfolio. Typically, a portfolio will have equities, bonds, and then maybe an alternative category that includes lots of different things. The Macro Allocation Fund fits into the alternative arena, but it is a good complement to what happens in the alternative portion of a portfolio, as well as the entire portfolio.

So let's first focus on the alternative portion of a portfolio. Some of the assets are illiquid, such as real estate or private equity. Other assets are liquid: equities and bonds, but liquid strategies across those equity and bond assets. The liquid investments in the alternative bucket have two common characteristics. One, they tend to be bottom-up individual selection of stocks and bonds—both long and short—but it tends to focus on the individual securities.

The second is the investment style. Typically in the alternative bucket, investors are investing in a momentum or trend following manner. That is they buy when the market goes up, and they sell when the market goes down.

Now let's think about the characteristics of the Macro Allocation Fund, and how it diversifies what is occurring in the alternative bucket. First, the Macro Allocation Fund is top-down, and in that manner it diversifies the bottom-up securities selection. The Macro Allocation Fund is investing in equity markets and sectors, bond markets, credit categories, and currencies—very different from what you would typically find in the alternative bucket.

The second thing is that the Macro Allocation Fund invests in a fundamental manner. In other words, as prices are high, above fundamental value, we will tend to sell, and if prices are way below fundamental value, we will tend to buy. In that manner, we are



The Macro Allocation Fund introduces diversification from another perspective across asset classes.

not momentum or trend following, and in fact, we complement or diversify that style that is inherent in the alternative bucket.

But perhaps more important is the contribution that the Macro Allocation Fund makes to the aggregate portfolio. It acts as a complement to the aggregate portfolio, and it does so in the following manner. The aggregate portfolio is typically allocated to a number of asset classes: U.S. equities, non-U.S. equities, U.S. bonds, non-U.S. bonds and alternatives. The Macro Allocation Fund introduces diversification from another perspective across all those asset classes, but it also introduces more granularity and flexibility.

The Macro Allocation Fund invests in individual equity markets and sectors, developed and developing, individual bond markets, credit categories—again developed and developing—and perhaps most importantly, and often what is left out of a portfolio, is currency: the active management of currency across developed and developing markets.

So, the Macro Allocation Fund actually complements the aggregate portfolio while it diversifies the alternative bucket.

HOW DOES THE FUND SEEK TO MANAGE DOWNSIDE RISK?



The Fund can invest long and short, which often results in a lower correlation to equity markets. It also makes a significant allocation to active currency management, an important diversifier.

As portfolio managers, our job is to take risk. It's not to avoid risk. The key is taking risk that's compensated and avoiding risk that's uncompensated. But even when you do that, there's always going to be not just upside, but downside in portfolio performance, and that's important to remember. It is also important to think about the tools that we have in the Macro Allocation Fund to potentially manage those upside and downside exposures.

First, we have the opportunity to go long and short. We have the opportunity to sell assets and currencies



Adding a multi-asset manager affords the ability to navigate macro developments around the world.

that are priced way above fundamental values, and that helps us avoid things that may decline in price. It doesn't mean that they won't go further up, but we do have the opportunity to take advantage of those dislocations and avoid the risks that come with that.

That ability to go both long and short also results in a relatively low correlation with respect to the equity market. The Macro Allocation Fund will tend to have a low correlation and if prices are very, very far above fundamental values, that correlation could even be negative with respect to the equity market.

If prices are very low, that correlation could go much higher, but on average we think it would be relatively

low. In addition, in managing the Macro Allocation Fund, we have a significant amount of our active risk taken in currencies. Currency exposure and active currency management provides a very, very diversifying impact on the portfolio. That's been our experience and that as well is our expectation as we go forward. That will help mitigate downside risk in a portfolio.

Finally, we have the ability to use tools such as options to manage the upside and downside exposure of the portfolio. Options enable us to buy insurance against the downside when those options are cheap, and it also allows us on the other hand to sell insurance when the options are expensive. So we'll be on both sides of those option transactions, but when prices are way above fundamental values, buying that protection is an important element in managing the downside exposure of a portfolio.

So in the end we have a combination of tools. First, the portfolio is expected to have a relatively low correlation. Second, the exposure to currencies and the active management of currencies is an important diversifier. And third, we do have the ability and do actively use options in the portfolio to potentially protect the downside.

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HOW IS THE FUND'S CURRENCY MANAGEMENT UNIQUE?



We believe what's unique about the portfolio is the degree of risk that we take in currencies—it represents about half of the overall risk of the portfolio. And, unlike many managers, we invest for the long-term, based on fundamental values.

The Macro Allocation Fund is very focused on risk management and we actually divide the risks that we take into three categories: passive market risk, correlation with the equity market; active market risk, the longs and shorts that we take across equities and bond markets around the world; and third, active currency risk, going long and short individual currencies.

What's unique about the portfolio, however, is the degree of risk that we take in currencies, about one-third of the overall risk of the portfolio and half of the active risk of the portfolio over time, coming from currencies and the way we actually manage the currency portion of the portfolio.

When we manage currencies, we do it in a unique manner, a manner that not many other currency managers use. We're longer term in nature. We tend to invest in currencies based on fundamental value. We are exploiting opportunities that other investors tend not to pay attention to. We are looking to identify fundamental value for the currencies and buy currencies where prices or exchange rates are below fundamental value and sell currencies where the exchange rates or prices are above fundamental values.

We maintain those positions riding the tide or riding the gravitational pull of value on those exchange rates, ultimately to enhance the performance of the portfolio and be an important diversifier to the overall risk of the Macro Allocation Fund and the overall risk of a client's broader portfolio.

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WHAT ARE THE POTENTIAL BENEFITS OF THE FUND'S FLEXIBILITY?



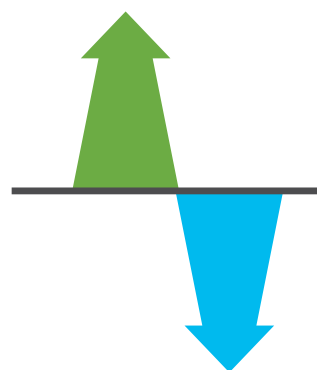
Our research influences what we find attractive and what we find unattractive, enabling us to go long and short in individual equity markets and sectors, credit categories, and currencies. Also, we implement using liquid instruments to help us move quickly—whether for risk management or to capture an opportunity.

The Macro Allocation Fund can invest opportunistically in a more surgical manner than most top-down portfolio managers. Rather than just investing in broad asset classes, we invest long and short in individual markets and sectors, credit categories and currencies. That flexibility allows us to really take advantage of opportunities and manage the overall risk of the portfolio.

We do, however, invest in those markets and sectors and credit categories and currencies both long and short. That's important because it provides us the opportunity of buying things that we believe are attractive and selling

markets, asset classes or currencies that we believe are unattractive.

The ability to get our research into the portfolio, both with things that we find attractive and things that we find unattractive, is powerful from a return perspective but also from a risk management perspective. That provides an additional degree of flexibility in our overall portfolio management.



We invest long and short in individual markets and sectors, credit categories, and currencies.

In addition, the implementation is with liquid instruments that allow us to move quickly if need be even though we're a long-term investor. Sometimes we do want to move quickly for risk management purposes or to capture an opportunity and that is something that is very, very powerful for the Fund.

HOW DO YOU DETERMINE THE RISK CAPITAL ALLOCATIONS?



The William Blair Macro Allocation Fund manages risk dynamically over time. The Fund seeks to take less risk if there are few opportunities and more risk when there are a lot of opportunities.

Risk management is a very important aspect of all of the portfolios we manage. It's very important to manage the risk of a portfolio in a dynamic manner to be consistent with the opportunities that are available to the investor. And the best way to think about it is to envision a world where all prices are at fundamental value. When that's the case there's no reason for us to take any active risk in a portfolio. In other words, everything is fairly priced.

On the other hand, there may be times when some prices are way below fundamental values and some prices are way above fundamental values. When that occurs, dynamically, it's important to take more risk to be consistent with the opportunity. It's important not to balance the risk or equalize the risk across asset classes. It's important to respond and take risk consistent with the opportunity.

The way we will then manage risk is to use a little bit of risk when there's no opportunity and lots of risk when there's a lot of opportunity, and dynamically manage it over time. In addition, as part of the analysis, we identify macro themes that compel prices away from and toward fundamental values. These macro themes cut across asset classes. And when we observe that, we want to take advantage of opportunities where the dislocations are created. On the other hand, we may want to reduce risk when we believe those macro themes create uncertainty in the pricing of assets.

So it's a very dynamic process of managing risk to be consistent with the opportunities — and to be taken where we believe we understand the risk and we believe it's compensated — regardless of what asset class it's in.

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HOW ARE YOU ABLE TO BE FULLY TRANSPARENT?



We're fundamental investors — we don't have a black box approach. As longer-term investors, we can openly discuss our views on fundamental values across 100 markets and currencies, as well as our thoughts on macro developments.

The Dynamic Allocations Strategies team is fundamentally driven, that's our investment philosophy. Because we're fundamental investors, we tend to be longer-term investors and because we're longer-term investors, we can often talk very openly about our thoughts of fundamental value and what is developing in the broader economy. We're not a black box, and we're not a quant shop.

We determine fundamental value across about 100 different markets and currencies and at any point in time we're always assessing the discrepancies of prices to fundamental values.

And we're quite transparent in indicating to our clients what we believe fundamental value is for those markets and sectors and bond categories and currencies, as well as how prices deviate from those fundamental values. That's the foundation of our investment philosophy.

But in addition to that we are quite open to talking about why prices deviate from value. And we have a very disciplined process for doing that. We'll talk about conventional wisdom and why conventional wisdom may compel prices either away from or towards fundamental values. We'll talk about macro themes and how those themes may influence prices relative to fundamental values and finally, geopolitics, we found that to be very important in the current environment as to why prices may deviate from fundamental values.

So we're always grounded in fundamental analysis, we're always quite open and transparent with what we believe fundamental value is for equity markets, bond markets and currencies and we're quite open in a very disciplined framework about talking about why prices may deviate from fundamental values.

HOW DO YOU LEVERAGE GAME THEORY IN MACRO INVESTING?

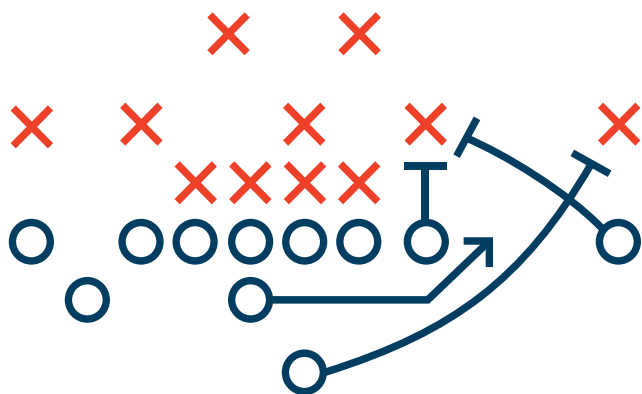


We use fundamental analysis to identify potential opportunities. But geopolitics can significantly impact market prices, and game theory is a tool we use to help navigate these macro risks.

Some people refer to us as the game theory investors, but I think it's important to have some context.

First and foremost, we are fundamental investors.

We identify fundamental value, and we observe that there are opportunities when prices deviate from fundamental values. And we always want to be on the right side of fundamental value. But once we observe that there are discrepancies between prices and fundamental value, it's important for us to understand why those discrepancies exist and we have certain tools that we use.



We identify who the players are, what their objectives are, and that helps us understand their motivations. The players' actions and communications influence prices and create opportunities.

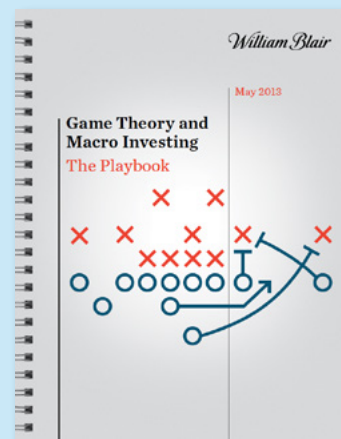
One tool is our assessment of conventional wisdom. What's influencing the mind of the market to push prices away from fundamental values? Second, we identify macro themes that may be compelling prices either away from or towards fundamental values, but a third tool which is very important and very unique is our use of game theory. Basically the world today is geopolitically unstable. It's not the world of the Cold War. It's not necessarily a bad thing, but it does introduce a new set of considerations for investors.

And it is a set of considerations that are outside the normal discipline of top-down or bottom-up investing. This discipline is geopolitical analysis in a game theoretical context. It's unique and it's new to the investment arena. The way we engage the market from a game theoretical perspective is to identify theaters such as the euro zone, an election in Germany, a fiscal debate in the U.S., a confrontation in Syria—those are game theaters. We identify on top of that who the players are, what their objectives are, and that helps us understand their motivations.

It helps us understand their actions and their communications. It's all about a framework to understand what is going on in these games theaters. These actions and these communications of the players influence prices and create opportunities to capture dislocations of prices from fundamental values and to manage risk, as these players create risk and uncertainties in the marketplace.

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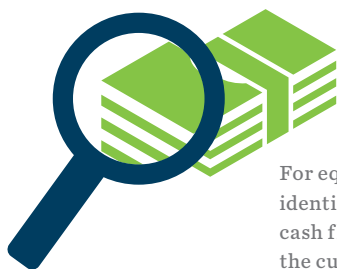
HOW DO YOU DETERMINE FUNDAMENTAL VALUE?

For assets (equity and bond markets), we identify the present value of future cash flows. We then discount those cash flows to the current value to ultimately determine what is fundamental value. For currencies, we use purchasing power parity—the exchange rate finds its fundamental value when it equalizes the prices of goods and services in different countries. If prices are below fundamental value, we will buy. If prices are above fundamental value, we will sell.



Fundamental value is critical to our investment approach, and it is behind every decision we make in the Macro Allocation Fund. But what does fundamental value mean?

Well, for assets, equity markets and bond markets, fundamental value is the present value of future cash flows. Simply stated, we identify the future cash flows that will accrue to an equity market, a bond market, a sector, an equity sector or a bond category. We then discount, using interest rates, those future cash flows back to the current value to determine what, ultimately is fundamental value, for the equity market or the bond market.



For equity and bond markets we identify the present value of future cash flows then discount them to the current value to determine what is fundamental value.

For currencies, we use what is known as purchasing power parity, and purchasing power parity simply means that the exchange rate finds its fundamental value when it equalizes the prices of goods and services in each country. That is fundamental value. And if the exchange rate differs from that, it will gravitate back toward fundamental value.

For example, if goods are cheap in Germany, a U.S. investor has the opportunity to go to Germany, buy those goods, bring them back to the U.S. and sell them and make a profit. In doing that, that cheap currency gets pushed higher back to fundamental value.

In all instances, if prices are below fundamental values, we will buy. If prices are above fundamental values, we will sell. We don't transact in commodities directly because we don't have the ability to determine fundamental value through a discounted cash flow process.

We've also discovered something else over the years. Prices converge on fundamental value for exchange rates or currencies faster than for equities and for bonds. For currencies, it's on the order of about four or five years; for equities, it's on the order of about eight to ten years. The bond markets are somewhere in between.

What that means is fundamental value is a very powerful tool for currency management and it's for that reason that within the Macro Allocation Fund we allocate a significant portion of our risk budget to currency management.

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HOW DO YOU VET INVESTMENT IDEAS?



We distribute our analyses without conclusions to each member of the team. Each member then independently develops his or her own conclusions. When we meet we're not looking for middle of the road conclusions—we want individuals with conflicting views to challenge one another. We believe the discussion produces a superior decision.

The Dynamic Allocation Strategies team is a very globally diverse team but what's important about that is the different backgrounds—educational backgrounds, cultural backgrounds, life experiences. And we want to bring that to bear when we are vetting any decisions that we may be making from an investment perspective. In order to draw upon this diversity, we always do our analysis without conclusion. And that analysis is then distributed to each member of the team for them to draw their own independent conclusions, which they will bring independently and blindly back to the team for vetting.

The important aspect of this is the conclusions drawn from the analysis are always dependent on each individual's perspective. Their own culture, their own background. When we get the conclusions back, the point is that we're not looking for the middle-of-the-road. What we're looking for is the extremes. And we want the extremes to argue with each other because that's where the information content is. We want to see if the extremes can sway our thinking one way or another. We're kind of drawing upon the wisdom of a very educated crowd, and a very experienced crowd, to come up with the best solution.



The Dynamic Allocation Strategies team is very globally diverse, and we want to bring that to bear when we are vetting any investment decisions that we may be making.

An example of this application would be the determination of the inflation rate in the U.S. When we do that we'll analyze the central bank, its objectives, threats to its independence, things like that and all of us will take that information and come to a conclusion as to what we believe the forward looking inflation rate would be for the U.S. And then will take the low number and the high number, the extreme individuals and have them argue with each other until a single individual who has both authority and accountability for that decision will make a final decision.

In the end there are two things that are important. One is, we do come upon a superior outcome, a superior decision, but also the discussion that we have to get to that outcome is informative for everyone and helps us understand the world as it evolves over time.

Important Disclosure

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Alternative investments may use investment techniques and financial instruments that are considered aggressive and typically involve a high degree of risk. Such techniques may include short sales or other strategies that are intended to provide inverse exposure to a particular market or other asset class, as well as leverage and may subject a portfolio to potentially dramatic changes (including losses) in a portfolio's value. Alternative investments commonly include the use of derivatives, or investments where the investor does not own the underlying asset, but instead makes a bet on the direction of the price movement of the underlying asset. Examples of derivatives include options, swaps, futures and forward contracts. Derivatives are generally used as an instrument to hedge risk but also can be used for speculative purposes. There are various types of risks associated with derivatives such as market risk, liquidity risk, credit risk, legal risk and operations risk. These investments are intended for sophisticated investors who are willing to bear the loss of their entire investment and may not be suitable for all investors.

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The Fund involves a high level of risk and may not be appropriate for everyone. You could lose money by investing in the Fund. There can be no assurance that the Fund's investment objective will be achieved. The Fund is not a complete investment program and you should only consider the Fund for the alternative portion of your portfolio. Separate accounts managed by the Advisor may invest in the Fund and, therefore, the Advisor at times may have discretionary authority over a significant portion of the assets invested in the Fund. In such instances, the Advisor's decision to make changes to or rebalance its clients' allocations in the separate accounts may substantially impact the Fund's performance. The Fund is designed for long-term investors.

The Fund may use investment techniques and financial instruments that may be considered aggressive—including but not limited to the use of futures contracts, options on futures contracts, securities and indices, forward contracts, swap agreements and similar instruments. Such techniques may also include short sales or other techniques that are intended to provide inverse exposure to a particular market or other asset class, as well as leverage. These techniques may expose the Fund to potentially dramatic changes (losses) in the value of certain of its portfolio holdings.

Investments are subject to a number of other different types of risk, including market risk, asset allocation risk, credit risk, commodity risk, counterparty and contractual default risk, currency risk, and derivatives risk. For a more detailed explanation and discussion of these risks, please read the Fund's Prospectus.

Please carefully consider the Fund's investment objective, risks, charges, and expenses before investing. This and other information is contained in the Fund's prospectus, which you may obtain by calling +1 800 742 7272. Read it carefully before you invest or send money.

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