William Blair

William Blair Macro Allocation Fund
Fund Manager Commentary

Performance Summary

The Macro Allocation Fund (Class N) completed the quarter with negative performance, with the market segment contributing and currency detracting. Within markets, long exposures to U.S., U.K., Chile, and global energy sector equities contributed. Detracting from performance were long exposures to Brazil and Germany equities and long exposure to emerging debt. Within currencies, short exposures to Australian dollar, euro and Thai baht helped performance, while long exposure to the Brazilian real, Philippine peso and Singapore dollar detracted.

Fund Positioning

The market segment remains long of equities, with an effective exposure of +38%. The market segment's largest country exposures are U.S. and U.K. equities. Markets are net long of fixed income with exposure of +9% with primary long exposures in emerging debt.

Within currencies, the largest long exposures are the Singapore dollar, Japanese yen, Russian ruble, and Brazilian real, while the largest short exposures are to the New Zealand dollar, euro, and U.S. dollar.

Review & Outlook

Global equities recorded flat overall performance in the third quarter (as measured by the MSCI All-Country World Index), with a few bouts of worry-induced volatility. Some positive returns were concentrated in developed markets, and most emerging market indices finished lower for the quarter. Bond yields moved moderately higher in developed markets, and more significantly higher in some emerging markets where interest rates continued to be increased quite aggressively. Most currencies depreciated against the U.S. dollar in the quarter. No developed country increased policy interest rates, although expectations for central banks' first move in this direction were brought forward in many markets. Rates were raised in several emerging countries as a sign of less tolerance for higher inflation. Turkey, which has for some time been on its own trajectory, defied the norm and cut interest rates for the first time since the first half of 2020. Turkish interest rates remain the highest in our investment universe, but inflation is higher still.

Consumer price increases generally gathered pace across the world (with Japan and a few other Asian countries being exceptions), and the annual inflation rate is above the respective central bank target midpoint almost everywhere. Higher inflation is partly due to the recovery of economic growth from the slump induced by the COVID-19 pandemic, and part of it reflects myriad supply bottlenecks, most of which can

Fund Exposures[1] as of 9/30/2021

Equity	**38.1**
U.S.	6.6
Canada	0.4
Europe (ex-U.K.)	2.7
United Kingdom	8.7
Asia Developed	5.5
Emerging	14.2
Fixed Income	**9.2**
U.S.[2]	3.2
Developed (ex-U.S.[2])	-4.4
Emerging	10.4
Cash & Other[3]	**52.7**
Credit Detail	
U.S. Investment Grade Spread	3.1
U.S. High Yield Spread	1.1
U.S. MBS Spread	0.0
European Investment Grade Spread	2.2
Active Currency	
U.S. Dollar (USD)	-18.9
Canada Dollar (CAD)	-10.2
Other Americas	27.6
Euro (EUR)	-9.2
Switzerland Franc (CHF)	-5.5
Great Britain Pound (GBP)	2.5
Other Europe	0.5
Australian Dollar (AUD) and New Zealand Dollar (NZD)	-23.2
Japan Yen (JPY)	11.1
China Yuan (CNY)	0.0
Asia (Excluding JPY and CNY)	16.8
Other	8.6

Select Exposures[4]	
Russian Ruble (RUB)	11.5
Brazilian Real (BRL)	11.5
Colombian Peso (COP)	8.2

[1] Information about the Fund's holdings should not be considered investment advice. There is no guarantee that the Fund will continue to hold any one particular security or stay invested in any one particular sector. Holdings are subject to change at any time.

[2] Reflected as 10-year exposures.

[3] Cash & Other is unencumbered cash, collateral, and synthetic cash.

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

similarly be traced back to dislocations that were caused by the prolonged lockdowns that governments implemented as the coronavirus struck in 2020. In major economies, monetary policy makers have continued to emphasize a belief that above-target price rises will not be permanent, and none have raised interest rates. Most have also continued with their programs of buying large quantities of sovereign debt to hold bond yields low. Markets have been giving stronger signals, however, that bond-buying plans will soon be scaled back even if policy rate rises will in most cases be delayed until 2022. New Zealand is expected to be the first central bank in the developed world to raise rates, though a move in August was put off at the last minute partly because the country's defenses against imported infections of COVID-19—successful in keeping the pandemic out of New Zealand for some time—appeared to have been breached. This triggered a nationwide lockdown that lasted for several weeks in its largest city. Developed world bond yields traded higher as both reported inflation and improving growth increased confidence that monetary accommodation is set to wind down, though yields remain extremely low. We sold bonds, reducing exposure, early in the quarter in the United States, Germany, and China. Our fixed income exposure has for the last two years been held at a higher level than the significant overvaluation of bonds would warrant because of the dominant central bank interference in this market, but we are now decreasing exposure.

Given the very high levels of indebtedness on the part of most governments following their unprecedented stimulus efforts to support economies through the pandemic, above-target inflation is favorable in their eyes, as it works over time to deflate the real value of their outstanding debt. But this is only the case if inflation does not translate into higher interest rates and yields on the same debt because then the cost of issuing new debt (and rolling that which matures) would rise in line with inflation. This is, of course, why monetary policy is delegated to independent central banks that are ostensibly not influenced by governments' fiscal concerns; but it also means that those central banks have to continuously convince market participants of their autonomy, which has become much more of a challenge as they have extended their sphere of influence into direct asset buying. Therefore, the ability of central banks to reassure markets both that price rises are transitory and that they will respond if this appears to become no longer true, is becoming an ever-greater challenge as more and more "idiosyncratic" and/or "temporary" sources of inflation (such as semiconductors and natural gas) are revealed. Against this background, reduced bond market exposure is appropriate in our view.

We modestly reduced our equity exposure in the quarter, though overall exposure at quarter-end remains slightly above its typical average in our portfolios. We did increase exposure in China, which is a market whose fundamental attractiveness had been improved as a result of various regulatory actions by the authorities to rein in leverage. Further actions, most recently in China's property sector, have continued to weigh on sentiment, but we believe the bottom line is that the curbing of excesses is a long-run beneficial development for China's markets and is being wrought by leadership whose interests lie in facilitating China's continued emergence as an economic power. Our valuation assumptions associated with the equity market have incorporated significantly slower growth expectations (relative to China's history) for some time.

We also have some nonlinear exposure to eurozone equity via a long option position, which has caused our overall equity weight in portfolios to increase during rising markets and decrease in market declines. This is known as convex equity exposure, and we have reset and rolled the option position going forward. Late in the quarter, we reduced our long position in Chile, which had outperformed other emerging markets in recent months.

In currencies, we also have a long option position, which is a call on Japanese yen (JPY) and a put on New Zealand dollar (NZD). In a similar way, the option increases our JPY exposure (and decreases our NZD exposure) if the JPY appreciates (versus the NZD), and it does the reverse if the JPY falls. In valuation terms, the NZD is highly overvalued relative to the JPY so the exposure inherent in the option trade is aligned with our valuation view. In addition, this particular exchange rate is often negatively correlated with global equities (the JPY tends to rise and the NZD tends to fall when equities go down), so as well as it having valuation support, the option can have the effect of slightly hedging equity exposure elsewhere in our portfolios. Another factor in the attractiveness of options as investments is the forward-looking expectation of volatility of the underlying market prices. During the period, we have held the NZDJPY and eurozone equity options, these implied volatilities have been unusually low, making options more compelling to buy in view of their other advantageous (convex) feature.

Elsewhere in our currency strategy, our largest emerging currency exposures continue to be in currencies where the respective central banks have been most aggressively hiking policy rates, namely Brazil and Russia. In contrast to developed world central banks, those in Brazil and Russia do not consider themselves to have the same luxury of presuming domestic inflation is temporary (and indeed, inflation is higher in these countries than in the United States and Europe). Monetary tightness is positive for the Brazilian real and the Russian ruble, and both currencies remain very fundamentally attractive in our view. We increased our exposure to each early in the quarter. We also moved long of the Chilean peso—which we had held previously in 2020 but removed—as Chile's central bank also began to raise interest rates in response to a quite vigorous economic growth rebound. Another modest change in currency strategy was a response to weaker European currencies relative to North American—this was manifested in the euro-U.S. dollar rate and some others, and the change we made was to buy Norwegian krone against Canadian dollar.

We have retained a small exposure to the Turkish lira (TRY) since March—when we significantly cut the position in response to a shock dismissal of a market-friendly central bank head who was replaced with another, more amenable to President Erdogan's unique desire to cut interest rates in the face of rising inflation. Although the credibility of monetary policy in Turkey has been severely curtailed since then, the new governor kept Turkey's interest rate at 19% (the highest in our investment universe) until September, at which point it was cut to 18% even though inflation has not fallen. The scarcely credible monetary regime has weakened the TRY but has not yet tempted us to re-increase this exposure. However, the very high nominal carry offered by Turkish interest rates means that a material amount of TRY depreciation remains compensated, and in total return terms, TRY exposure has had a positive performance effect in the last six months.

Our long-term investment objective is to deliver positive investment returns through a market cycle. We remain grounded in fundamental valuation as our first stage—we strive to take only 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.

INVESTMENT PERFORMANCE (AS OF 9/30/21)

	QTR	YTD	1 Y	3 Y	5 Y	Since Incep.[1]
Class I (SI: 11/29/11)	-0.09%	3.87%	10.64%	2.54%	1.93%	3.77%
Class N (SI: 11/29/11)	-0.18%	3.66%	10.26%	2.28%	1.66%	3.50%
ICE BofAML 3-Month U.S. Treasury Bill Index[2]	0.01%	0.04%	0.07%	1.18%	1.16%	0.64%

Performance cited represents past performance. Past performance does not guarantee future results and current performance may be lower or higher than the data quoted. Returns shown assume reinvestment of dividends and capital gains. Investment returns and principal will fluctuate with market and economic conditions and you may have a gain or loss when you sell shares. For the most current month-end performance information, please call +1 800 742 7272, or visit our Web site at www.williamblairfunds.com. Class N shares are available to the general public without a sales load. Class I shares are available only to investors who meet certain eligibility requirements.

[1]Class I and Class N inception date: 11/29/2011.

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.15%	1.12%
Class N	1.47%	1.37%

Expenses shown are as of the most recent prospectus. The Fund's Adviser has contractually agreed to waive fees and/or reimburse expenses to limit fund operating expenses until 4/30/22.

IMPORTANT DISCLOSURES

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 holds equity exposures, which may decline in value due to both real and perceived general market, economic, and industry conditions. Investing in bond markets is subject to certain risks including market, interest-rate, issuer, credit, and inflation risk; investments may be worth more or less than the original cost when redeemed. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. Investment return, principal value, and yields of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Investments are subject to a number of types of risk, including counterparty and contractual default risk. For a more detailed explanation and discussion of these and other risks, please read the Fund's Prospectus. The Fund is designed for long-term investors.

The ICE Bank of America Merrill Lynch 3-Month U.S. Treasury Bill Index measures total return on cash, including price and interest income, based on short-term government Treasury Bills of about 90-day maturity. The Index is unmanaged, does not incur fees or expenses, and cannot be invested in directly.

This content is for informational and educational purposes only and not intended as investment advice or a recommendation to buy or sell any security. Investment advice and recommendations can be provided only after careful consideration of an investor's objectives, guidelines, and restrictions.

Please carefully consider the Fund's investment objectives, risks, charges, and expenses before investing. This and other information is contained in the Fund's prospectus and summary prospectus, which you may obtain by calling +1 800 742 7272. Read the prospectus and summary prospectus carefully before investing. Investing includes the risk of loss.

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