William Blair

Fourth Quarter 2021

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., and global energy sector equities and short exposure to Germany fixed income contributed. Detracting from performance were long exposures to China and Chile equities and long exposure to emerging debt. Within currencies, short exposures to New Zealand dollar, and euro and long exposure to Norwegian krone helped performance, while long exposure to the Turkish lira and Colombian peso and short exposure to Israeli shekel detracted.

Fund Positioning

The market segment remains long of equities, with an effective exposure of +32%. The market segment's largest country exposures are U.S. and U.K. equities. Markets are slightly net long of fixed income with exposure of +0.4% 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, Canadian dollar, and U.S. dollar.

Review & Outlook

Global equities finished 2021 close to all-time highs driven by strong performance from developed market equities. Emerging equities (inclusive of currency fluctuations) ended the year lower than they started. Within the fourth quarter, gains were recorded in most equity markets in October, followed by a setback starting in late November as a new variant of the virus that caused the COVID pandemic emerged in southern Africa and began to spread. The weakness in equities was much milder than the declines seen at the beginning of the pandemic in early 2020, however. Sovereign bonds mirrored the equity pattern as yields rose at the start of the fourth quarter before falling as investors again revised their expectations about the withdrawal of monetary accommodation, this time factoring in renewed delays. The U.S. dollar (USD) generally strengthened against developed and emerging currencies alike, but in total return terms, several emerging currencies that had significantly raised their interest rates in 2021 kept pace with the USD. Market volatility spiked in late November due to the impact of the aforementioned variant—named Omicron—but the rise appeared to dissipate rather quickly.

Events concerning the Omicron variant provided a reminder that the headwinds caused by the COVID pandemic remain likely to reemerge. The mutation, which was discovered in Africa in late November, appeared to possess greater ease of transmission and greater ability to infect those already vaccinated or previously

Fund Exposures[1] as of 12/31/2021

Equity	**32.1**
U.S.	6.8
Canada	0.4
Europe (ex-U.K.)	-0.5
United Kingdom	7.7
Asia Developed	5.5
Emerging	12.2
Fixed Income	**0.4**
U.S.[2]	3.2
Developed (ex-U.S.[2])	-12.2
Emerging	9.5
Cash & Other[3]	**67.5**
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	2.1
Active Currency	
U.S. Dollar (USD)	-17.8
Canada Dollar (CAD)	-10.2
Other Americas	32.1
Euro (EUR)	-6.2
Switzerland Franc (CHF)	-5.5
Great Britain Pound (GBP)	0.0
Other Europe	0.5
Australian Dollar (AUD) and New Zealand Dollar (NZD)	-22.3
Japan Yen (JPY)	8.2
China Yuan (CNY)	0.0
Asia (Excluding JPY and CNY)	16.8
Other	4.5

Select Exposures[4]	
Russian Ruble (RUB)	11.5
Brazilian Real (BRL)	13.5
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.

infected. There are some indications that the variant may be less likely to cause severe illness and that protection afforded by vaccines is still present, though reduced. Even before the recorded emergence of Omicron, several European countries had been experiencing a new COVID resurgence and had again adopted increased social restrictions. In December, with the variant circulating with greater ease—even among highly vaccinated populations such as in the United Kingdom—such restrictions were reintroduced and/or tightened. As of year-end, growth-retarding restrictions on mobility were considerably lighter than those that had prevailed early in 2021, and special fiscal support measures from governments had generally not been rekindled, but expectations of central bank monetary tightening that had been built into market prices were nonetheless scaled back.

Notwithstanding the above, conventional wisdom has evolved considerably during the last year to assume that most central banks are firmly on a trajectory to pare back their extraordinary monetary accommodation of recent years. The exceptions to this pattern are Japan and some other Asian countries. Elsewhere, higher inflation has begun to curtail central bank asset purchase programs, even as the message from developed world monetary authorities remained one of viewing inflation as mostly transient. Policy rates in developed countries mostly remain at their historic lows with a few exceptions like New Zealand and the United Kingdom, both of which commenced the process of normalizing rates, but interest rates are almost everywhere predicted to rise earlier than had previously been the case.

Many emerging countries are ahead of the developed world in this tightening phase, and have been grappling with sharper consumer price increases and less credibility to spare were they to declare this "temporary" and look through it in a similar way as the U.S. Federal Reserve and others have. Accordingly, there have, for example, been multiple central bank rate increases already across Latin America, Russia, and a first increase in South Africa. In some countries—Brazil and Chile included—the speed of rate tightening has increased in recent months. So far there is scant indication of consumer price inflation having peaked in these places, though Brazil may be closest to this point. In addition, the rise in inflation has in most cases been faster than central banks have been raising rates, meaning that real interest rates (based on historic inflation) have in general fallen rather than increased. In this regard, even in the emerging world, there is some acknowledgement that the world is presently witnessing an unusually sharp price surge, influenced by the combined impact of supply constraints and demand rebound on energy, commodities, and goods that are a result of the emergence from the worst economic effects of 2020. Even in Latin America and Russia, there is apparently a belief that some of this effect will fall back out of consumer prices as supply and demand normalize, hence policy rates should rise but not fully match increases in respective countries' consumer price indices. If this is correct, then real interest rates across much of the emerging world should rise as price increases moderate and nominal monetary policy rates stay high or rise higher, as is expected by market participants.

This prognosis is the rationale behind a significant part of our currency strategy in portfolios, where our largest long positions are in those currencies whose central banks are leading the way—and/or expected to do so—in respect of monetary tightening, and where the currencies themselves are also quite deeply fundamentally undervalued in our view. These currency opportunities (in Brazil, Russia, Chile, Colombia) have yet to be rewarded and accordingly remain wide (attractive). We further increased our exposure to the Chilean peso and the Brazilian real in the quarter. Political risk exists in both countries, with Chile having just had a presidential election and Brazil scheduled for one in 2022. Populist leaders in both countries present challenges to ESG-oriented institutional quality and the business climate, but, importantly, the monetary institutions—which are central to our valuation case—remain highly robust and independent of political interference. Hence, we have taken advantage of the potential opportunities presented by undervaluation and monetary tightening.

We made few changes to equity exposure in the fourth quarter. In a move offsetting the currency change just mentioned, we reduced long equity exposure in Chile, which faces a revision of its constitution in 2022, in addition to a new president. Also, some of our long equity exposure in Europe had, for the last six months, been held via call options, which has resulted in the exposure automatically rising and falling in conjunction with similar movements in European equities. The performance impact was roughly neutral for the portfolio in the quarter overall but served to reduce volatility within the period. We also employ proprietary indicators of equity market fragility developed within the investment team, and based on these indicators, we made a marginal decrease in European equity exposure in mid-November, shortly before the setback precipitated by the Omicron COVID variant. We reduced our bond exposure in the middle of the quarter by selling German government debt, which brought our fixed income exposure to its lowest level in the past two years.

We also had a long option exposure in our currency strategy for most of the quarter, via a call on the Japanese yen and a put on the New Zealand dollar. This option created a nonlinear long JPY / short NZD exposure, which was warranted by fundamental valuation and provided a negatively correlated position with equity markets. In line with this property, the option made gains at the time that stocks weakened and the position was closed in early December.

The high yield (real estate) market in China was rocked by a payment default on the bonds of one of the country's largest property developers, Evergrande, which in turn was part of the fallout of the government's efforts to reduce leverage and indebtedness in parts of its economy and financial system, and also to tighten regulations in other areas. Although China has a huge credit market, this episode has not introduced contagion outside of real estate, which is a significant part of the high yield market but a very small part of total corporate credit. We maintained a small long exposure to the broad China equity market in the quarter. The exposure initially comprised small cap stocks only, which fared much better than large cap exposures that are more exposed to government regulation. We then sought to capitalize on this significant weakness by increasing our overall China exposure via large cap stocks. Overall, our equity exposure to China has been of benefit to portfolios in 2021. There remains a risk that, in their regulatory enthusiasm, the authorities may at some point trigger a more significant hit to growth expectations, and accordingly, influence a wider adverse market movement. But we have expected a slowdown in China's growth rate for a long time and it remains reflected in our valuation assumptions for that equity market. Furthermore, from a global perspective, some slowdown in China acts as a counterweight to the economic rebounds seen in other parts of the world in the last year and more.

We retained a modest exposure to the Turkish lira at the start of the quarter, which was a performance drag on the portfolio in the fourth quarter. While we believe the lira remains deeply undervalued, the exposure within our portfolios was much smaller than the valuation picture would justify because of Turkey's continued push for inappropriately easy monetary policy (in sharp contrast to the rest of the world) in the face of very high inflation. This push increasingly appeared to be aimed at fueling an economic boom—via a weak currency and a current account surplus—in order to, in part, boost the popularity of its president. As this low rate/weak currency strategy became more aggressive, and with the independence of the central bank severely compromised, we exited the small lira exposure as it further depreciated. In the medium term, we expect the country's monetary institutions to outlast President Erdogan, and that the substantial pessimism afflicting the currency at present, coupled with its very considerable fundamental attractiveness, may ultimately provide a renewed investment opportunity, but a full and appropriate exploitation of this may ultimately be dependent on President Erdogan's exit from his current position of influence and power.

Our long-term investment objective is to deliver positive investment returns above cash 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 12/31/21)

	QTR	YTD	1 Y	3 Y	5 Y	10 Y
Class I (SI: 11/29/11)	-2.37%	1.41%	1.41%	0.75%	1.31%	3.19%
Class N (SI: 11/29/11)	-2.42%	1.15%	1.15%	0.50%	1.03%	2.92%
ICE BofAML 3-Month U.S. Treasury Bill Index	0.01%	0.05%	0.05%	0.99%	1.14%	0.62%

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.

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.

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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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