William Blair

Fund Manager Commentary
William Blair Small-Mid Cap Growth Fund

Market Summary

Third quarter returns for U.S. equities were strong as stocks continued their upward movement from the first two quarters of the year. Improving economic data and solid corporate earnings growth were the primary reasons for the robust equity returns year-to-date in 2017. Specific to the third quarter, returns were generally positive for the first six weeks of the quarter as favorable corporate earnings growth was in focus. As a barometer, corporations in the S&P 500 Index reported second quarter earnings growth of over 10% compared to the same period in the prior year, and approximately 73% of companies in the S&P 500 reported higher earnings per share for the second quarter than was expected. Domestic equities then took a slight pause mid-quarter as heightened geopolitical tensions and concern regarding the impact of two major hurricanes weighed on the minds of investors. However, tensions eased in early September and the projected financial impact of Hurricane Irma, the second of the two hurricanes, appeared to be less than originally feared. Later in September, the U.S. Federal Reserve reiterated its expectation to raise interest rates a third time this year, giving confidence to investors that the U.S. economy continued to improve. Also, the current Administration released details of its tax reform plan which would cut the corporate tax rate from 35% to 20%. Both the projected rate increase and tax reform plan were viewed as positive for U.S. equities and most major indices finished the quarter at all-time highs.

Top 10 Holdings[1] as of 9/30/17

Company Name	*% of Fund*
BWX Technologies, Inc.	2.7%
CoStar Group, Inc.	2.7%
Copart, Inc.	2.7%
Six Flags Entertainment Corporation	2.3%
Guidewire Software, Inc.	2.2%
SBA Communications Corporation	2.2%
Centene Corporation	2.0%
Booz Allen Hamilton Holding Corporation	2.0%
Take-Two Interactive Software, Inc.	1.9%
Ligand Pharmaceuticals Incorporated	1.9%
Total Top 10	**22.6%**

Fund Review & Outlook

The William Blair Small-Mid Cap Growth Fund (Class N shares) underperformed its benchmark, the Russell 2500 Growth Index, during the third quarter due to style and stock-specific factors. After outperforming through the end of August, small cap and more economically-sensitive stocks, both of which we are underweight, outperformed in September. For the quarter as a whole, our emphasis on durable business models was a headwind as companies with more volatile fundamentals outperformed. Specific to stocks, our positions in diversified technology company j2 Global and rail equipment manufacturer Westinghouse Air Brake Technologies were the largest detractors from performance. Shares in j2 Global declined after the company divested an online business, but did not lower 2017 guidance. The divesture made investors skeptical that the company will be able to deliver on earnings expectations for the year. Westinghouse Air Brakes Technology underperformed after the company reported second quarter results below expectations and lowered guidance. Weakness in its Freight and Transit segments caused the lower-than-expected quarterly results. Other top detractors in the quarter were Signature Bank (Financials), Glaukos (Health Care) and DexCom (Health Care). Our top contributors in the quarter were video game developer Take-Two Interactive Software and molecular diagnostics company Exact Sciences. Take-Two Interactive

[1] Listed holdings are presented to illustrate examples of the securities that the Fund has bought and do not represent all of the Fund's holdings or future investments. 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 and are as of the date shown above. Top ten holdings are shown as a percentage of total net assets.

reported strong quarterly revenue growth which topped expectations and was driven by strength from recurring revenue sources. Exact Sciences outperformed after the company reported strong quarterly results, signed a contract with one large insurer and extended a contract with another large insurer. Other top contributors were Align Technology (Health Care) Centene (Health Care) and Arista Networks (Information Technology).

While positive economic data and corporate earnings growth fueled robust equity returns for the first three quarters of 2017, it remains to be seen if the level of equity returns experienced so far this year is sustainable in an environment where many risks remain. Pertaining to fiscal policy, it is unclear whether the current Administration will be able to implement pro-growth initiatives such as tax reform and infrastructure spending after being unsuccessful in implementing meaningful health care reform to date. Lack of progress on pro-growth initiatives could dampen optimism that the U.S. economy will have sustained higher growth going forward. Regarding monetary policy, the U.S. Federal Reserve, after two federal funds rate increases so far this year, remains focused on the health of the labor market and its 2% inflation target. While job gains have remained solid and unemployment is at historically low levels, headline inflation remains low. If inflation does not accelerate, the Federal Reserve may have to balance interest rate increases with inflation below targeted levels. The U.S. economy is also subject to risks from abroad. A major geopolitical conflict in the Korean Peninsula, an aggressive pull back in quantitative easing in Europe or a financial crisis from high debt levels in China all have the potential to derail positive economic momentum in the U.S.

We continue to focus our attention analyzing businesses from a bottom-up, fundamental perspective. As such, impacts of economic developments are analyzed on a company-by-company basis. We continue to invest in companies with durable growth drivers and whose stocks present compelling risk/reward opportunities. It is our view that a portfolio constructed in this way is less dependent on economic growth and will be rewarded over time.

INVESTMENT PERFORMANCE % (as of 09/30/17)

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 12/29/03)	5.12	22.08	25.28	14.15	16.09	9.72
Class N (SI: 12/29/03)	5.08	21.82	24.96	13.84	15.78	9.44
Russell 2500™ Growth Index	5.78	17.03	20.07	11.27	14.46	8.72

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.16	1.10
Class N	1.43	1.35

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 4/30/18.

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.

DISCLOSURE

The Fund's returns will vary, and you could lose money by investing in the Fund. The Fund invests most of its assets in equity securities of small cap and mid cap domestic growth companies where the primary risk is that the value of the equity securities it holds might decrease in response to the activities of those companies or market and economic conditions. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result. Investing in small and medium capitalization companies involves special risks, including higher volatility and lower liquidity. Small and mid-cap stocks are also more sensitive to purchase/sale transactions and changes in the issuer's financial condition. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. Diversification does not ensure against loss The Fund is not intended to be a complete investment program. The Fund is designed for long-term investors.

The Russell 2500 Growth Index measures the performance of those Russell 2500 companies with above average price-to-book ratios and forecasted growth rates. 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, which you may obtain by calling 1-800-742-7272. Read it carefully before you invest or send money. Investing involves the risk of loss.

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