William Blair

3Q 2017

Fund Manager Commentary
William Blair Emerging Markets Growth Fund

Fund Performance & Positioning

The William Blair Emerging Markets Growth Fund (Class N shares) outperformed its benchmark, the MSCI Emerging Markets IMI Index (net), during the third quarter. Outperformance versus the Index was driven by positive stock selection across most sectors, led by Financials and Consumer Discretionary. Within Financials, bank and insurance holdings were leading contributors. India-based Yes Bank's share price was supported by consensus-beating quarterly financial results that demonstrated solid loan growth (+32% Y/Y) and margin expansion. China's Ping An Insurance also benefited from a positive earnings surprise, highlighted by 46% growth in the value of new life business, which significantly outpaced consensus expectations of 35%-40% growth. Management's decision to increase the dividend payout ratio from 9% to 21% also bolstered investor confidence. Within the Discretionary sector, Chinese tutoring services company TAL Education was a notable contributor, driven by strong operating trends. The company reported fiscal Q1 sales growth of 65% Y/Y driven by robust enrollment growth.

Partially offsetting these positive effects were stock selection in the Energy and Real Estate sectors, and the underweighting to Materials. Within Energy, Brazilian refining and marketing company Ultrapar Participacoes's share price was hampered by weaker than expected earnings in its retail fuels business. Indian gas company Petronet's share price weakened in July on concerns about softening liquefied natural gas (LNG) demand, although the company's quarterly earnings release in September was positive, driven by solid LNG import volumes. Within Real Estate, the lack of exposure to Chinese property stocks was the primary detractor.

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

Company Name	*% of Fund*
Alibaba Group Holding Limited	6.2%
Tencent Holdings Limited	5.7%
Samsung Electronics Co., Ltd.	5.1%
Naspers Limited	3.2%
HDFC Bank Limited	2.8%
Taiwan Semiconductor Manufacturing Company, Ltd.	2.7%
Housing Development Finance Corporation Limited	2.4%
Sunny Optical Technology (Group) Company Limited	2.0%
Ping An Insurance (Group) Company of China, Ltd.	1.9%
YES BANK Limited	1.7%
Total Top 10	**33.7%**

From a geographic attribution perspective, outperformance during the quarter was driven primarily by China, Korea and India stock selection. These positive effects were partially offset by the overweighting to Indonesia and underweighting to Russia, as well as Mexico stock selection. Within Mexico, airport holdings Grupo Aeroportuario del Sureste and Grupo Aeroportuario del Pacifico underperformed amid some profit taking following a strong rally in the first half of the year.

Market Review & Outlook

Global equities continued to march higher in the third quarter, supported by generally solid corporate fundamentals and positive growth conditions across the major economies. The ACWI IMI – MSCI's broadest measure of global equity performance – advanced 5.32% during the quarter and 17.24% year to date through September (in USD terms). Emerging market equities continued to outpace developed markets during the quarter, supported by continued strength in technology shares and a rebound in the energy sector.

[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.

European equity outperformance was driven by the region's ongoing economic recovery, improving corporate fundamentals and investors' perception of a potentially stronger European Union following the French and German elections. The euro appreciated nearly 4% versus the U.S. dollar during the quarter and 12% year to date, driven by expectations for higher inflation and gradual interest rate normalization by the European Central Bank. Currency strength also bolstered U.K. returns during the quarter as the Bank of England laid the groundwork for tighter monetary policy to combat inflation.

U.S. equities achieved record highs during the quarter, overcoming mounting tensions with North Korea and weaker GDP growth expectations in the aftermath of Hurricanes Harvey, Irma and Maria. Within Japan, the release of encouraging economic data in September helped to propel equities higher into quarter end. While core inflation, labor market and industrial production data for August were broadly positive, Prime Minster Abe's decision to call a snap election raised some uncertainty on the policy outlook.

Emerging market quarterly gains were paced by Brazil, which rebounded from the latest presidential corruption scandal amid the country's nascent consumer-led economic recovery. Russia and China also posted double-digit gains for the quarter. More than half of MSCI China IMI's 14.49% quarterly gain was driven by the Information Technology sector, with the balance spread among Consumer Discretionary, Financials and Real Estate.
From a global sector perspective based on the MSCI ACWI IMI, Energy was the leading performer for the quarter, benefiting from the bounce in crude oil prices, followed closely by the Information Technology and Materials sectors. In contrast, Consumer Staples significantly lagged for the quarter, with particular weakness in U.S. and Japanese tobacco stocks.

The performance of William Blair's proprietary quantitative models demonstrated that momentum and earnings trend style factors outperformed during the quarter, while quality, fundamental volatility and valuation underperformed. These style trends were particularly acute within emerging markets.

The latest high frequency data and surveys indicate that ongoing economic expansion is gathering pace, especially in the Euro Area. At the same time, wage growth continues to be modest across most developed markets, and this is beginning to restrain consumer behavior. In Q3 2017, retail sales volumes growth decelerated across all major developed economies. From the perspective of corporates, top line growth is currently in the range of 6-10% pa; it is not meaningfully higher across emerging markets. Beyond improving corporate performance, the outlook for the remainder of this year remains relatively benign, as major national elections, especially in Europe, produced outcomes favorable for continued growth.

From a global strategy perspective, we continue to see upside potential to nominal growth in select companies and industries, as expectations do not appear extended. We do not expect the unfolding gradual withdrawal of monetary policy stimulus to be detrimental to growth either in the U.S. or in the Euro Area, where policy action is not expected until 2018. Corporate performance in the 2H 2017 is likely to be stronger in Europe and in Japan, as economic expansion in the U.S. is relatively more mature. Emerging markets are well positioned to participate in the ongoing global expansion and valuations remain relatively favorable. Recent U.S. dollar strength is unlikely to dampen the fortunes of corporates in emerging markets materially.

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

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 06/06/05)	11.97	39.10	26.29	5.66	5.95	1.13
Class N (SI: 06/06/05)	11.96	38.85	25.95	5.41	5.69	0.87
MSCI Emerging Markets IMI Index (net)	7.59	27.08	21.43	4.66	4.05	1.43

EXPENSE RATIOS (%)

	Gross Expense
Class I	1.41
Class N	1.65

Expenses shown are as of the most recent prospectus.

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 involves a high level of risk and may not be appropriate for everyone. You should only consider it for the aggressive portion of your portfolio. The Fund's returns will vary, and you could lose money by investing in the Fund. The Fund holds equities which may decline in value due to both real and perceived general market, economic, and industry conditions. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. The securities of emerging market companies may be subject to greater volatility and less liquidity than companies in more developed markets. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result. Currency rates may fluctuate significantly over short periods of time and may reduce the returns of a portfolio. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. The Fund is expected to incur operating expenses that are higher than those of mutual funds investing exclusively in U.S. equity securities due to the higher custodial fees associated with foreign securities investments.

The Morgan Stanley Capital International (MSCI) Emerging Markets IMI Index (net) is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. This series approximates the minimum possible dividend reinvestment. 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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