William Blair

3Q 2017

Fund Manager Commentary
William Blair Small-Mid Cap Value Fund

Market Review

The domestic equity market continued its upward trajectory in the third quarter, continuing the momentum from the last two quarters, driven by improving economic data and corporate earnings growth. Broadly speaking, domestic equity returns were generally positive for the first six weeks of the quarter as favorable corporate earnings growth was the main focus for investors. The market paused mid-quarter as heightened geopolitical tensions and concerns regarding the potential economic impact of two major hurricanes making landfall in the U.S. weighed on investors. The geopolitical tensions subsided in early September and the initial indications on the projected impact of Hurricane Irma, the second of the two hurricanes, appeared to be less than originally feared, helping the markets gravitate higher. Later in the month, the Federal Reserve (Fed) reiterated its expectation to raise interest rates again this year and plans to shrink its balance sheet, providing confidence that the U.S. economy continues to improve. In addition, the current administration released details on its plan for tax reform which would cut the corporate tax rate to 20%, from 35%. Both the expectations for higher interest rates and the prospects for lower tax reform were viewed positively and most major indices finished the quarter at all-time highs.

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

Company Name	*% of Fund*
E*TRADE Financial Corporation	1.5%
Wolverine World Wide, Inc.	1.5%
Owens Corning	1.4%
Interface, Inc.	1.4%
East West Bancorp, Inc.	1.4%
Brady Corporation	1.4%
Belden Inc.	1.3%
Lululemon Athletica Inc.	1.3%
CSRA Inc.	1.3%
Thor Industries, Inc.	1.3%
Total Top 10	**13.8%**

Fund Review

The William Blair Small-Mid Cap Value Fund (Class N shares) approximated its benchmark, the Russell 2500 Value Index, during the third quarter. Style factors were more normalized this year as the Fund's underweight deep value stock tailwind was more than offset by the headwind created by our larger market cap and higher quality biases.

At the sector level, the most significant contributor to relative performance was Financials due to stock selection within Property & Casualty Insurance, the lack of exposure to Reinsurance and stock selection within Capital Markets and Mortgage Finance. While the contribution from Banks was slightly positive during the quarter, Bank stocks rebounded late in the quarter due to higher interest rates and the prospects for lower taxes. Within Consumer Discretionary, stock selection within Apparel and Automobile Manufacturers and the lack of exposure to Specialty Stores and Home Furnishing Retail drove the relative outperformance within the sector. The relative underperformance within Industrials was primarily the result of stock selection within Construction Machinery & Heavy Trucks and Industrial Machinery. The lack of exposure to Biotech, a lower quality segment of the market, and stock selection within Health Care Equipment contributed to the relative underperformance within Health Care.

Looking specifically at stock selection, our largest contributors to relative performance were Carpenter Technology (Materials), Thor Industries (Consumer

[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.

Discretionary), and FMC (Materials). The largest detractors from relative performance during the period were Westinghouse Airbrake Technologies (Industrials), Hologic (Health Care), and MEDNAX (Health Care).

Outlook

While solid domestic economic data and corporate earnings growth fueled positive equity returns year-to-date, it remains to be seen if these returns are sustainable in an environment where numerous risks remain. Deregulation continues to positively impact the domestic economy while global growth continues to improve. 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 these pro-growth initiatives could dampen investor optimism regarding the sustainability of higher future growth for the U.S. economy. On the monetary policy front, the Fed, after raising rates twice already this year, remains focused on the health of the labor market and achieving its 2% inflation target. While unemployment is historically low and wage growth appears to be accelerating, both positive signs for the U.S. consumer, headline inflation remains stubbornly low. The Fed may be hesitant to raise interest rates again with inflation below targeted levels, potentially signaling concern that domestic growth remains fragile. The U.S. economy is also subject to risks from abroad. A major geopolitical conflict or a deceleration of growth in Europe or China could potentially alter the trajectory of the positive economic momentum in the U.S.

While we are mindful of these variables, we are persistently seeking to identify attractive risk reward opportunities based on individual company fundamentals. From our bottom up perspective, we remain constructive on corporate earnings, albeit against a backdrop of increasing margin pressure from higher wages. As always, our focus remains on identifying quality companies at discount prices and corporate transformation opportunities, and we continue to find good ideas across sectors. Given our investment approach, we believe the Fund is well-suited to withstand a variety of market scenarios and add value over the long-term.

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

	QTR	YTD	1Y	3Y	5Y	Since Incep.
Class I (SI: 12/15/11)	3.85	4.28	13.60	10.24	12.73	13.30
Class N (SI: 12/15/11)	3.77	4.06	13.31	9.94	12.42	12.99
Russell 2500® Value Index	3.83	5.86	15.75	9.94	13.25	14.77

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	3.92	1.10
Class N	4.15	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 holds equities which may decline in value due to both real and perceived general market, economic, and industry conditions. Investing in smaller 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 Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2500 Value Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap value market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set and that the represented companies continue to reflect value characteristics. 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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