William Blair

3Q 2017

Fund Manager Commentary
William Blair Small Cap Growth Fund

Market Overview

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*
FirstCash, Inc.	2.3%
Six Flags Entertainment Corporation	2.2%
Meta Financial Group, Inc.	2.1%
Guidewire Software, Inc.	2.0%
HEICO Corporation	1.9%
ESCO Technologies Inc.	1.9%
j2 Global, Inc.	1.8%
Golden Entertainment, Inc.	1.8%
Steven Madden, Ltd.	1.7%
BWX Technologies, Inc.	1.7%
Total Top 10	**19.4%**

Fund Review & Outlook

The William Blair Small Cap Growth Fund (Class N shares) underperformed its benchmark, the Russell 2000 Growth Index, during the third quarter due to style and stock-specific factors. Pertaining to style, our typical underweight to Biotechnology was a headwind as the industry outperformed. Specific to stocks, stock selection in Consumer Discretionary, including positions in Bridgepoint Education, Laureate Education and YogaWorks, detracted from performance. Bridgepoint Education, a provider of postsecondary education services, underperformed after reporting lower-than-expected revenues and enrollments for the second quarter. The largest individual stock detractor was inspection and maintenance services provider Team Inc. which declined due to business results that disappointed investors and an announcement of a potentially dilutive convertible debt offering. j2 Global (Information Technology) was also a top detractor. Conversely, stock selection in Information Technology, including positions in Yelp and Take-Two Interactive Software, contributed to performance. Consumer review website and mobile app company Yelp outperformed after reporting strong business results and modestly increasing full year revenue guidance in the face of investor skepticism. Video game developer Take-Two Interactive Software reported strong quarterly revenue growth which topped expectations and was

[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.

driven by strength from recurring revenue sources. Other top contributors were HEICO (Industrials), NxStage Medical (Health Care) and Lithia Motors (Consumer Discretionary).

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 on 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 broad economic growth and will be rewarded over time.

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

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 12/27/99)	4.78	21.07	27.13	14.31	16.93	8.08
Class N (SI: 12/27/99)	4.70	20.88	26.83	14.03	16.64	7.80
Russell 2000® Growth Index	6.22	16.81	20.98	12.17	14.28	8.47

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.27	1.25
Class N	1.55	1.50

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 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 smaller companies involves special risks, including higher volatility and lower liquidity. Small cap stocks are also more sensitive to purchase/sale transactions and changes in the issuer's financial condition. These risks are intensified for investments in micro-cap companies. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. The Fund is not intended to be a complete investment program. The Fund is designed for long-term investors.

The Russell 2000 Growth Index is the Fund's primary benchmark and consists of small-capitalization 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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