William Blair

4Q 2017

Fund Manager Commentary
William Blair Emerging Markets Leaders Fund

Fund Performance & Positioning

The William Blair Emerging Markets Leaders Fund (Class N shares) underperformed its benchmark, the MSCI Emerging Markets Index (net), during the fourth quarter. Fourth quarter underperformance was primarily driven by negative stock selection across most sectors. Within the Telecommunication Services sector, Bharti Infratel Ltd and Telekomunikasi Indonesia Persero (Telekom Indo) weighed on relative returns. After jumping on speculation of a buyout by private equity and sovereign wealth funds, the shares of Bharti Infratel, the Indian wireless towers operator, declined on the back of disappointing 2QFY18 operating results and the sale of a $508 million stake by Bharti Airtel. Telekom Indo stock weakness was driven by investor concerns over increased competition and the impact of the company's mobile segment slowdown on operating performance. In addition, Emaar Properties in the Real Estate sector was an additional source of underperformance. The UAE–based property developer and hospitality manager's share price declined after its special dividend fell short of market expectations.

Partially offsetting these negative effects were the underweight allocations in the Telecommunication Services and Real Estate sectors as well as positive stock selection in the Industrials sector. Within the Industrials sector, Bidvest Group contributed positively to relative results. Share price strength for the South African conglomerate was underpinned by accelerating operating trends amid strong management execution and acquisitions that were positively received by investors.

Top 10 Holdings[1] as of 12/31/17

Company Name	*% of Fund*
Samsung Electronics Co., Ltd.	5.8%
Tencent Holdings Limited	5.6%
Taiwan Semiconductor Manufacturing Company, Ltd.	5.3%
Alibaba Group Holding Limited	4.6%
Ping An Insurance (Group) Company of China, Ltd.	3.5%
Naspers Limited	3.3%
Housing Development Finance Corporation Limited	2.6%
Maruti Suzuki India Limited	2.4%
Petroleo Brasileiro S.A. - Petrobras	2.4%
Airports of Thailand Public Company Limited	2.1%
Total Top 10	**37.6%**

Market Review & Outlook

The 2017 market environment was characterized by strong and accelerating global economic growth. The broadening nature of growth was particularly noteworthy, as evidenced by strengthening industrial production volumes across the world. Corporate earnings results were bolstered by the expanding economic environment, providing a tailwind for investors. Beyond improving corporate performance, major national elections, especially in Europe, produced outcomes favorable for continued growth.

Risk assets led the markets in 2017. Emerging markets—which received oxygen from a weak U.S. dollar—performed the strongest, returning 36.8% in USD terms, as measured by the MSCI EM IMI. Developed markets also performed well, advancing 22.4% for the year (MSCI World IMI). China (+50.7%) drove emerging markets' performance to a significant extent, with additional contributions from South Korea (+46.0%), India (+43.7%), Poland (+53.6%), Chile (+43.3%) and South Africa (+34.0%)—illustrating the breadth of gains across the EM landscape.

[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.

From a global sector perspective, technology led by a significant margin in 2017, advancing 41.0% for the year (as measured by MSCI ACWI IMI), far outpacing the second best performer, materials, which gained 29.3%. Within technology, the software and services industry returned 42.2%, followed by semiconductors and equipment (+42.0%) and technology hardware and equipment (+37.8%). In contrast, energy (+5.2%) and telecom (+8.2%) were the worst performing sectors for the year.

The performance of William Blair's proprietary quantitative models demonstrated that momentum, earnings trend and growth style factors outperformed during 2017, while fundamental volatility, quality and valuation factors underperformed. These style trends were more pronounced within emerging markets.

Underpinning 2017 performance was a broadening of growth in both developed and emerging markets, which we have not seen in more than a decade. As growth broadened, it also strengthened. Year-over-year growth in industrial production volumes, a proxy for growth, ranged from 3% in the United States to 8% in Brazil.

When global growth drives expansion, it shows up in corporate earnings. In 2017, returns were driven predominantly by corporate earnings growth as opposed to price-to-earnings multiple expansion. That is not to say that multiple expansion was completely absent. Delving deeper into the sectoral composition of returns, Europe and the United States benefited from P/E expansion during the year, which we would expect in response to stronger growth performance.

The synchronized global recovery is well understood, and global growth remains firm. For us, though, it is important to understand the nature of the cycle and how far we are into it. The low-volatility regimes we have experienced in the equity and fixed-income markets carry potential risks. When change comes, it will likely be difficult, because we have been shielded from natural cyclical behavior—from negative economic and market forces—for some time.

Sudden inflationary pressures and wage growth acceleration would likely alter investor return expectations, driving bond yields and volatility materially higher, while potentially triggering equity-leadership rotation both across and within sectors. Financials would be expected to benefit from higher rates, for example, but increased caution would be warranted for financially-leveraged companies. We want to be mindful of this.

Reflecting on some of the preeminent growth themes of 2017, including technology and the rise of innovation in China, we are optimistic. Despite the growing likelihood of a cyclical slowdown within the technology sector, we believe that strong secular growth will continue.

From a geographic perspective, we believe that emerging markets continue to offer attractive investment opportunities heading into 2018. In particular, there are abundant opportunities to invest in China's growth, but we are mindful of the significant share-price gains in 2017 from the perspective of near-term momentum reversal risk.

INVESTMENT PERFORMANCE % (as of 12/31/17)

	QTR	YTD	1Y	3Y	5Y	Since Incep.
Class I (SI: 03/26/08)	6.45	41.89	41.89	7.35	4.76	2.71
Class N (SI: 05/03/10)	6.50	41.68	41.68	7.08	4.48	4.75
MSCI Emerging Markets Index (net)	7.44	37.28	37.28	9.10	4.35	—

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.54	1.40
Class N	1.81	1.65

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 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 securities of smaller companies tends to be more volatile and less liquid than securities of larger companies. International investing involves special risk considerations, including currency fluctuations, higher volatility, lower liquidity, economic and political risk. Investing in emerging markets can increase these risks. 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 Morgan Stanley Capital International (MSCI) Emerging Markets Index (net) is a free float-adjusted market-capitalization-weighted index that is designed to measure equity market performance of emerging markets. 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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