William Blair

4Q 2017

Fund Manager Commentary
William Blair Small-Mid Cap Value Fund

Market Review

Improving economic data and solid corporate earnings growth supported a steady market advance throughout the year, assisted by momentum from President Trump's pro-growth initiatives. In the fourth quarter, the domestic equity market continued to gravitate higher, driven by strong corporate earnings growth and solid domestic economic data. The magnitude and breadth of the strong earnings announcements suggest that the results more than offset the impact from the hurricane disruptions last quarter, as evidenced by the above-consensus 3% GDP reported during the quarter. In addition to the strong corporate earnings and solid economic data, continued momentum on tax reform helped support market returns as the final proposal seemed to be relatively in-line with expectations. In December, the Federal Reserve (Fed) seemed to demonstrate confidence in the sustainability of an improving domestic economy as it continued with its rate normalization process and raised the Fed Funds rate at what was outgoing Fed Chair Janet Yellen's last meeting. While new Fed Chair, Jay Powell was widely expected to replace Yellen, his formal selection was a relative non-event for the market. Although there were a number of headline concerns related to geopolitical instability and political posturing on tax reform issues, these concerns were more than offset by the strong corporate earnings results, solid domestic economic data, and the ultimate agreement on tax reform during the quarter.

Fund Review

The William Blair Small-Mid Cap Value Fund (Class N shares) outperformed its benchmark, the Russell 2500 Value Index, during the fourth quarter due to a combination of style tailwinds and stock selection. While style factors continued to be more normalized, the Fund's larger market cap and higher quality biases provided modest tailwinds during the quarter which were partially offset by an underweight to deeper value stocks. At the sector level, broad-based stock selection throughout most industries within Consumer Discretionary drove the sector's relative outperformance as it was the largest contributor to relative performance during the quarter. Stock selection and the Fund's lack of exposure to Biotech and Pharmaceutical stocks resulted in the relative outperformance within Health Care. Strong stock selection within Property & Casualty Insurance was the primary driver of the outperformance within Financials. The relative underperformance within Energy was primarily the result of stock selection within the Exploration & Production sub-industry. The relative underperformance within Real Estate was the result of stock selection within Residential and Retail REITs. Finally, stock selection within Semiconductors was the main contributor to the relative underperformance within Information Technology. Looking specifically at stock selection, our largest contributors to relative performance were lululemon athletica (Consumer Discretionary), Dunkin' Brands (Consumer Discretionary), and Thor

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

Company Name	*% of Fund*
E*TRADE Financial Corporation	1.6%
Old Dominion Freight Line, Inc.	1.6%
Wolverine World Wide, Inc.	1.6%
Owens Corning	1.5%
Lululemon Athletica Inc.	1.5%
Interface, Inc.	1.5%
Pinnacle West Capital Corporation	1.4%
Thor Industries, Inc.	1.4%
Lennox International Inc.	1.4%
Dunkin' Brands Group, Inc.	1.4%
Total Top 10	**14.9%**

[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.

Industries (Consumer Discretionary). The largest detractors from relative performance during the period were CSRA (Info Tech), Home BancShares (Financials), and Gulfport Energy (Energy).

Outlook

As the nine-year anniversary of the current bull market approaches, many question how much longer this economic cycle can last. While solid domestic economic data and strong corporate earnings growth fueled the positive equity returns in 2017, tax reform, more specifically a lower corporate tax rate, and increased fiscal spending may be the catalysts that help extend this economic cycle. Tax reform is poised to provide a one-time benefit to earnings per share growth, particularly for smaller cap stocks, that will result in lower multiples and take some of the valuation risk out of the market.

The low and invariable interest rate environment experienced the last few years may have allowed a number of marginal companies, particularly those with higher debt levels, to survive and compete for market share longer than they would have otherwise and helped keep inflation low. A more normalized interest rate environment may benefit higher quality companies as these marginal companies, who struggle to generate the cash flow necessary to service their debt, get squeezed out.

The U.S. economy continues to be subject to a number of risks including a monetary policy mistake by the Fed, a major geopolitical conflict, or a deceleration of global growth which could 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. Although many companies may face increasing margin pressure from higher wages, some of this will be offset by a lower corporate tax rate. 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 12/31/17)

	QTR	YTD	1Y	3Y	5Y	Since Incep.
Class I (SI: 12/15/11)	5.32	9.84	9.84	8.89	13.12	13.69
Class N (SI: 12/15/11)	5.31	9.59	9.59	8.61	12.82	13.39
Russell 2500® Value Index	4.25	10.36	10.36	9.30	13.27	14.90

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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