William Blair

4Q 2017

Fund Manager Commentary
William Blair Small Cap Growth Fund

Market Overview

Robust performance across growth style indices in the fourth quarter added to prior gains, resulting in exceptionally strong benchmark returns for 2017. Improving economic data and solid corporate earnings growth supported a steady market advance throughout the year. With below average volatility and stable inflationary expectations, equity market valuation multiples expanded, adding to 2017 returns.

Fourth quarter trends were consistent with 2017 themes in terms of economic and corporate health. Housing data indicated rising activity levels and prices, Purchasing Manager Index ("PMI") levels suggested strength in the manufacturing sector and unemployment neared historic lows. With rising stock and housing prices bolstering consumer net worth, confidence rose accordingly. Corporations were broadly upbeat as, in aggregate, they reported healthy earnings growth and issued forward looking guidance that topped expectations. Furthermore, corporations indicated plans to increase capital expenditures. Not surprisingly given tight labor markets, the U.S. Federal Reserve ("Fed") voted to raise the federal funds rate for the third time in 2017 and reiterated expectations for as many increases in 2018.

The U.S. tax reform bill was signed into law in late December, notably cutting the corporate statutory tax rate to 21% from 35%. In addition, the bill allows for faster depreciation of capital investments than was previously allowed, further increasing the likelihood that higher capital spending comes to fruition. While the bill is positive for U.S. corporations, the same was not true in terms of the short term impact on our relative performance as stocks with higher tax rates outperformed somewhat indiscriminately on the news. Over time, we believe the market will differentiate between companies that can retain the benefit of the tax reduction and those that will have it competed away. Given our bias toward companies with strong competitive positions, unique products and services and pricing power, we feel well positioned longer term in this regard.

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

Company Name	***% of Fund***
FirstCash, Inc.	2.4%
Meta Financial Group, Inc.	2.0%
j2 Global, Inc.	1.8%
BWX Technologies, Inc.	1.8%
Ligand Pharmaceuticals Incorporated	1.8%
MaxLinear, Inc.	1.7%
RealPage, Inc.	1.7%
Varonis Systems, Inc.	1.7%
HealthSouth Corporation	1.7%
Codexis, Inc.	1.6%
Total Top 10	**18.2%**

Fund Review & Outlook

The William Blair Small Cap Growth Fund (Class N shares) outperformed its benchmark, the Russell 2000 Growth Index, during the fourth quarter. Outperformance was driven by stock specific dynamics. The Fund benefited from strong stock selection in Information Technology and our position in USA Technologies was a standout within the sector. The stock outperformed after the company announced the acquisition of a business that would complement its current offering of technology and services that facilitate electronic payments at unattended point-of-sale terminals. Other top contributors were Boot Barn Holdings, Golden Entertainment and At Home Group in Consumer Discretionary and Codexis in Materials.

[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.

Following a period of sales disruptions, shares of western and work wear retailer Boot Barn Holdings advanced significantly as investors began to re-focus on the long term growth opportunity after the company reported strong results and visibility improved. Conversely, stock selection within Health Care dampened relative performance. Notable underperformers in the sector included Acadia Healthcare, NeoGenomics and CryoLife. Shares of behavioral health company Acadia Healthcare declined in part due to operational weakness across the company's United Kingdom facilities and tight labor conditions in the region. We liquidated our position due to our reduced confidence in management's ability to identify and address the issues that caused the weakness. Other notable detractors included Universal Electronics (Consumer Discretionary) and Willdan Group (Industrials). Remote control developer Universal Electronics underperformed on what we believe to be transitory issues, including testing delays of new devices and order delays from customers, and we added to our position. From a style perspective, our typical smaller market cap bias provided a modest headwind as micro-cap stocks generally lagged in the quarter.

As we look forward, several factors could provide continued support for equities, although contrary to the somewhat euphoric market sentiment of late, they are not without risk. While the Fed has embarked upon a path of monetary policy renormalization and U.S. short term interest rates have begun to rise, global interest rates remain low by historic standards. Moreover, other measures of stress in the financial markets, such as high yield bond spreads, remain near cycle lows. Globally, solid economic growth rates, high corporate earnings and strengthening PMIs are other indicators of a broadly supportive environment for equities. Specifically within the U.S., corporations stand to benefit from the reduction of the corporate tax rate and the Administration's emphasis on deregulation. However, it remains to be seen how long those measures can sustain the current expansion or if they will have a more meaningful impact on economic growth in the next expansion. As Republican control of the U.S. House and Senate potentially weakens in 2018, politicians' attention could shift to mid-term elections rather than on any legislative agenda. Lack of further progress on pro-growth initiatives and a flattening yield curve within the U.S. could dampen optimism about the sustainability of economic growth, while a potential geopolitical conflict in the Korean Peninsula remains a significant risk globally. For the time being, however, we appear to be in the midst of a classic "Goldilocks" economy, at least as it relates to the financial markets.

As we approach the ninth anniversary of the current bull market and following a particularly strong year for equities, absolute valuations are elevated relative to historical standards; however, they do not appear egregious against the backdrop of low interest rates, low inflation and narrow high yield bond spreads. While corporate profit margins remain high, one notable risk to margins going forward is pressure from rising wages. On the surface, wage inflation has been relatively benign, but the trend of increasing wages becomes clear with an adjustment for the impact of higher-paid retirees being replaced by lower-paid entrants to the workforce. This will be of pressing concern for companies with more labor-intensive businesses and companies in more competitive industries with low barriers to entry that are unable to pass higher costs through to their customers. We continue to focus our attention on identifying durable businesses with significant competitive advantages and robust growth prospects that present compelling risk/reward opportunities. We believe portfolios with these underlying characteristics are well positioned to deliver outperformance for our clients over the long term.

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

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 12/27/99)	4.89	26.99	26.99	13.19	17.97	9.52
Class N (SI: 12/27/99)	4.81	26.70	26.70	12.91	17.67	9.24
Russell 2000® Growth Index	4.59	22.17	22.17	10.28	15.21	9.19

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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