

Fund Manager Commentary
 William Blair Global Leaders Fund

Fund Performance & Positioning

The William Blair Global Leaders Fund (Class N shares) outperformed its benchmark, the MSCI ACWI IMI Index (net), during the second quarter.

Outperformance versus the Index was primarily driven by positive stock selection across most sectors. The Health Care and Consumer Discretionary sectors were the largest sources of relative return, with Align Technology and Abiomed bolstering relative performance. Align Technology is the maker of Invisalign clear aligners for the orthodontics market. Clear aligners continue to take share from traditional wires and brackets, and we expect further penetration of the teen market and continued global expansion to drive future growth. Abiomed, the creator of the world’s smallest heart pump, is benefiting from strong sales in an underpenetrated market. Its Impella family of devices is designed to provide temporary blood circulation support to heart failure patients. The small pump takes on the pumping function of the heart enabling it to rest and recover. It is the first blood circulation support device to receive FDA approval and reimbursement, which should lead to increased utilization, and we do not see any material competition on the horizon. Within Consumer Discretionary, Weight Watchers International, the leading commercial provider of weight management services, was an additional source of outperformance, on the back of better-than-expected quarterly results.

Partially offsetting these effects was negative stock selection within the Information Technology and Industrials sectors. Within Information Technology, Taiwan Semiconductor Manufacturing (TSM) detracted from relative results as near-term growth expectations were reduced due to slow smartphone

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.

Top 10 Holdings¹ as of 6/30/18

Company Name	% of Fund
Amazon.com, Inc.	2.8%
Alphabet Inc.	2.6%
Unitedhealth Group Incorporated	2.3%
Adobe Systems Incorporated	2.2%
JPMorgan Chase & Co.	2.1%
BlackRock, Inc.	2.0%
The Home Depot, Inc.	1.9%
Mastercard Incorporated	1.9%
AIA Group Limited	1.8%
The Boeing Company	1.8%
Total Top 10	21.4%

sales. Despite this headwind, we expect TSM to remain the leading independent semiconductor foundry as it continues to close the process gap to perceived technology leader Intel. Challenges remain, particularly around the economics of Moore's Law and Samsung's continued competitive push, but this has not impacted TSM's pricing power, enabling continued strong returns. Komatsu, a global leader in the manufacture and sale of construction and mining equipment within the Industrials sector, declined in concert with concerns over the outlook for global economic growth. Despite these concerns, construction machinery demand is expected to increase 5-10% this year and mining equipment demand is expected to increase 10-20%. With room for the cycle to run further and the stock trading at attractive levels, we maintained our position.

During the period Health Care exposure was increased to an overweight position through the purchases of Lonza Group and Intuitive Surgical. Lonza, a leader in custom manufacturing of biopharmaceuticals and specialty ingredients, offers highly visible growth given the strong demand for outsourced biopharma production and its expertise and strong market position. We are confident it can deliver on growth with room for further upside. Intuitive Surgical, the dominant industry leader in robotic surgery, should benefit from further market

penetration and an increase in the types of procedures its da Vinci surgical system can perform. Energy exposure was also increased during the period. These increases were offset primarily by reductions to Financials and Information Technology. Within the Information Technology sector, semiconductor company Broadcom was liquidated as organic growth via content gains in wireless may be challenged in a difficult end-market backdrop. Furthermore, we believe that handset makers may be forced to seek further pricing concessions to maintain profitability levels. From a geographic perspective, notable adjustments were increases to the U.S. and Developed Europe - Middle East, offset by decreases to Japan and the U.K. The Fund's weighting in Emerging Markets approximated 8% at the end of the period, unchanged from the beginning of the period.

Market Review & Outlook

Global equity markets posted mixed results for the first half of 2018, buffeted by escalating trade tensions, the U.S. Federal Reserve's continued tightening bias and dollar strength. In contrast to the global synchronized expansion environment of 2017, equity performance in the first six months of 2018 reflected a growing divergence, with the U.S. economy, earnings and share prices maintaining positive momentum while the rest of the world rolled over.

The benign 2017 environment of low volatility and uninterrupted monthly gains abruptly reversed course in late January 2018, as worries about the extended bull market and narrowing leadership culminated in heavy selling pressure following reports that a handful of niche equity volatility-linked ETF products had suffered significant losses, stoking fears of broader risk contagion.

As the first half progressed, investors became increasingly concerned that the Trump administration's pursuit of protectionist measures would ignite a trade war with China and potentially derail the U.S. expansion. The slowing pace of economic activity in Europe combined with increased turbulence in emerging markets also weighed on investor sentiment.

U.S. equities extended their gains during the first half of 2018 and significantly outpaced non-U.S. markets,

bolstered by strong corporate earnings and tax reform. From a market cap perspective, U.S. small caps outperformed their large cap counterparts by approximately 3.5% during the period, as measured by the MSCI U.S. Standard and Small Cap indices. In addition to being less exposed to trade disputes given lower overseas revenues, U.S. small caps were expected to benefit more from tax reform: according to Bloomberg, for the three years ended December 2017, S&P SmallCap 600 Index companies had an average effective tax rate 4.3% higher than that of S&P 500 Index companies.

Non-U.S. developed market equity performance was hampered by negative returns in Europe amid softening economic data and renewed political turmoil in Italy. The euro depreciated approximately 3% versus the dollar in 1H18, reflecting these concerns in addition to expectations for prolonged monetary stimulus from the European Central Bank, which announced that interest rates would remain at record lows through the summer of 2019.

Harkening back to the 2013 taper tantrum episode, emerging markets equities and currencies were hit by a significant rise in investor outflows during the first half of the year. The stronger dollar and prospect of higher U.S. interest rates had a particularly detrimental effect on countries with larger current account deficits and dollar-denominated debt, including Argentina and Turkey.

Political uncertainty and a deteriorating economic growth outlook also weighed on emerging markets returns in the first half. Brazil's nationwide truckers' strike was projected to shave a full percentage point off 2018 GDP growth, threatening the country's nascent economic recovery and further clouding the reform outlook ahead of the presidential election this fall.

Although Chinese equities held up better than most emerging market countries for the six-month period, investors became increasingly wary of escalating trade tensions as the first wave of U.S. tariffs on \$34 billion of Chinese exports was scheduled to take effect on July 6.

Technology and energy were the top performing sectors on a global basis during 1H18, while telecom, financials and consumer staples underperformed.

Within emerging markets, energy was the only sector in positive territory for the six-month period, benefiting from the rebound in oil prices.

There is now a great deal of uncertainty about how the recently announced trade tariffs will impact intermediate term economic activity. Despite some market skepticism, global growth remains broad based and robust as we head into the second half of 2018. While global manufacturing PMIs declined from unsustainably elevated levels in February and March, the latest readings suggest that we are nearing the end of the in-cycle deceleration to levels in line with ongoing growth. Near-term economic fundamentals indicate that the current economic expansion has further to run. In times of economic expansion such as the current one, we expect companies to continue to post robust earnings growth. However, earnings growth cannot continue to accelerate at the same pace we experienced over the past several quarters, especially in the U.S., where acceleration has been quite pronounced. European corporates have also enjoyed relatively strong earnings growth, which is also likely to continue but at moderately slower rates in the near term.

While the underlying economy remains robust and economic indicators continue to signal positive momentum, escalating trade war rhetoric will likely have substantial consequences on market volatility, inflation, and growth dynamics over the coming quarters. As examples, tariffs on Canadian lumber are adding to higher costs for wood, which are fueling price increases of up to \$9,000 for a new single-family home, according to the National Association of Homebuilders. Elsewhere, prices of washing machines sold in the U.S. surged by nearly 8.5% this year – the first increase since 2012 – after the U.S. administration restricted imports earlier this year.

More broadly, some U.S. companies are reportedly using the threat of new tariffs as a reason to raise prices. In short, tariffs amount to either a tax on consumption or corporate margin deterioration if firms choose to absorb some portion of cost increases. In aggregate, it worsens the tradeoff between growth and inflation, and will likely lead to tighter monetary policy. Much of this has not played out yet, because the U.S. administration has moved only recently. However, these effects will begin to manifest themselves over the coming quarters, and it

is quite possible that this will bring us closer to the end of the current economic expansion cycle.

Longer term, we fear the U.S. administration's unilateral view of trade policy is suggesting an end to the decades-long building of integrated global markets and supply chains. If the U.S. chooses to limit or regulate trade however it sees fit, regardless of what agreements it may have signed in the past, trade and investment will become more volatile and more politicized. Multinationals from around the world will be more inclined to disentangle their operations from the U.S. The impact of this will only be revealed gradually over the next several years but could imply meaningful changes to competition, quality, and innovation.

From a portfolio strategy perspective, we believe emerging markets (EMs) are susceptible to further downside volatility in the second half of 2018 amid persistent dollar strength as interest rates and growth differentials continue to favor the U.S., and the Federal Reserve maintains its tightening bias. Positioning within our ACWI-oriented strategies has generally reflected our more cautious outlook, with reduced EM weightings in favor of increased developed market exposure, primarily in Europe. Within our dedicated EM strategies, we have maintained overweighted positions in China and India, and moderated exposures to Brazil and South Africa. Within China, our positioning continues to emphasize domestically-oriented consumer, healthcare and technology companies that we believe are well positioned to benefit from the economy's ongoing transition to a consumption and services-driven growth model.

INVESTMENT PERFORMANCE % (as of 06/30/18)

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 10/15/07)	3.06	6.46	21.92	11.24	11.69	6.80
Class N (SI: 10/15/07)	3.00	6.33	21.58	10.88	11.36	6.52
MSCI All Country World IMI Index (net)	0.72	-0.18	11.14	8.34	9.60	6.14

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.13	1.05
Class N	1.43	1.30

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 4/30/19.

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. 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. Investing in securities of smaller companies tends to be more volatile and less liquid than securities of larger 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. Investing in smaller companies involves special risks, including higher volatility and lower liquidity. Diversification does not ensure against loss.

The Morgan Stanley Capital International (MSCI) All Country World IMI Index (net) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. This series approximates the minimum possible dividend reinvestment. 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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