Fund Manager Commentary
William Blair International Developed Plus Fund

Fund Performance & Positioning

The William Blair International Developed Plus Fund (Class N shares) outperformed its benchmark, the MSCI World ex-U.S. Index (net), during the second quarter.

Outperformance versus the Index was primarily driven by positive stock selection across most sectors. Stock selection within the Financials sector was particularly positive, with AIA Group Ltd and M&A Capital Partners Co Ltd adding to relative results in the period. AIA Group is the Hong Kong-based insurance company. Strong operating momentum at AIA was driven by continued growth in Hong Kong and mainland China, where AIA's protection products continue to gain market share versus competitors, who are more exposed to low margin savings products. We believe the long term growth outlook for AIA remains structurally compelling, as the insurance market in China remains underpenetrated. M&A Capital Partners is a high-quality, small-cap growth company in Japan that provides merger and acquisition advisory services to small and medium enterprises (SMEs). The company's addressable market is significant; industry fragmentation coupled with aging demographics has resulted in succession challenges for many businesses. M&A Capital Partners has a strong track record of growth, generated in part by its industry expertise in dispensing pharmacies, combined with its success in attracting new consultants, thereby expanding internal capacity.

Partially offsetting these positive effects was negative stock selection within the Materials and Information Technology sectors. Within Materials, Canada-based Lundin Mining Corp hindered relative performance. Lundin is a geographically diverse, mid-tier upstream copper company. Given its lack of size to tackle large scale greenfield projects, Lundin has focused on targeted acquisitions where it can extract value through asset optimization. The company reported a 20% year-over-year decline in Q1 EBITDA due to lower volumes at its Candelaria mine in Chile. We expect volumes to recover and continue to like Lundin's balance between upstream copper and zinc exposure, combined with relatively low political risk and attractive valuation. Within the Information Technology sector, Taiwan Semiconductor Manufacturing Corp (TSM) detracted as near-term growth expectations were reduced due to slow smartphone 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.

Top 10 Holdings[1] as of 6/30/18

Company Name	*% of Fund*
Compass Group PLC	3.5%
Diageo plc	3.3%
AIA Group Limited	3.2%
MTU Aero Engines AG	3.1%
Royal Dutch Shell plc	3.1%
Capgemini SE	2.9%
Unilever N.V.	2.8%
The Toronto-Dominion Bank	2.5%
Canadian National Railway Company	2.4%
Canadian Natural Resources Limited	2.3%
Total Top 10	**29.1%**

During the period, Financials exposure was reduced to an underweight position through the liquidations of Swedbank AB, BNP Paribas SA and Suruga Bank Ltd. Offsetting this were increases to Materials and Consumer Staples exposures, including the new purchases of Canada-based copper miner First Quantum Minerals and Japan-based cosmetics company Shiseido. From a geographic perspective,

[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.

notable adjustments were increases to Canada and the U.K., offset by decreases to Europe ex-U.K. and Japan. The Fund's weighting in Emerging Markets approximated 8% at the end of the period, up from 7% at 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: 05/24/04)	0.37	-2.45	7.82	4.88	6.75	2.30
Class N (SI: 05/24/04)	0.31	-2.59	7.50	4.62	6.50	2.04
MSCI World ex-U.S. (net) Index	-0.75	-2.77	7.04	4.87	6.23	2.63

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.16	1.00
Class N	1.44	1.25

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'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, lower liquidity, economic and political risk. Investing in emerging markets can increase these risks, including higher volatility and lower liquidity. 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. Diversification does not ensure against loss.

The MSCI World Ex-US (net) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets outside the US. 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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