William Blair

2Q 2018

Fund Manager Commentary
William Blair Emerging Markets Growth Fund

Fund Performance & Positioning

The William Blair Emerging Markets Growth Fund (Class N shares) outperformed its benchmark, the MSCI Emerging Markets IMI Index (net), during the second quarter.

Outperformance versus the Index was primarily driven by positive stock selection across most sectors. Stock selection within Financials was particularly favorable, propelled by Indian holdings, especially HDFC Bank Ltd, India's largest bank by market capitalization. HDFC Bank's share price advanced on the back of continued solid operating results (consistent 20% earnings growth) and a positive growth outlook. We expect robust deposit growth and the pending capital raise to support HDFC Bank's balance sheet growth and stock performance. Healthcare also added to relative returns, bolstered by Chinese pharmaceutical holdings, especially CSPC Pharmaceutical Group. The Chinese branded generic pharmaceutical company delivered strong first quarter results that significantly exceeded consensus expectations. We expect the strong operating momentum to continue, driven by the acceleration in CSPC's innovative drug segment, new drug launches and a positive regulatory backdrop.

Partially offsetting these effects were the Energy underweighting and negative stock selection within the Industrials and Real Estate sectors. Within Industrials, Localiza Rent a Car SA weighed on relative returns. Localiza is Brazil's largest car rental company and a leading player in a fragmented market. Despite posting strong first quarter results, the stock was dragged down by broad weakness in Brazilian equities and currency depreciation during the quarter. China Vanke Co Ltd, the Chinese property developer, was a notable detractor within Real Estate. After strong operating performance in 2017 we expect earnings growth to moderate and government policy to become less supportive. We exited the position as a result.

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

Company Name	***% of Fund***
Alibaba Group Holding Limited	6.9%
Tencent Holdings Limited	6.2%
Taiwan Semiconductor Manufacturing Company, Ltd.	4.1%
Samsung Electronics Co., Ltd.	3.9%
HDFC Bank Limited	3.1%
Naspers Limited	2.9%
Housing Development Finance Corporation Limited	2.5%
IndusInd Bank Limited	1.8%
Bajaj Finance Ltd.	1.8%
SK hynix Inc.	1.7%
Total Top 10	**34.9%**

During the period, Financials exposure was reduced through positions trims and liquidations in Grupo Financiero Galicia and China Merchants Bank. Grupo Financiero Galicia, the Argentinean bank, was sold in order to eliminate Argentina exposure after rising U.S. bond yields and the stronger dollar pressured Argentinean assets, especially the peso currency. China Merchants Bank, China's leading retail bank, was sold due to a less favorable macroeconomic and regulatory backdrop for banks. Information Technology exposure was increased during the period, through new purchases and additions in Electronic Equipment, Instruments & Components, Semiconductors and IT Services. Within IT Services, we purchased Tata Consultancy Services as we expect management's strong execution and confident growth outlook amid an improving demand backdrop in core end markets to support the company's strong operating momentum. Exposure to Healthcare also increased as a result of the purchases of Bangkok Dusit Medical Services, the largest private hospital

[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.

group in Thailand, and several Chinese healthcare companies. From a geographic perspective, notable adjustments were increases to South Korea and Taiwan, offset by decreases to Brazil and South Africa.

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: 06/06/05)	-7.61	-7.21	11.16	5.30	6.00	2.13
Class N (SI: 06/06/05)	-7.63	-7.35	10.96	5.04	5.76	1.87
MSCI Emerging Markets IMI Index (net)	-8.02	-6.86	7.90	5.19	4.93	2.52

EXPENSE RATIOS (%)

	Gross Expense
Class I	1.27
Class N	1.50

Expenses shown are as of the most recent prospectus.

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 foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. 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 Fund is expected to incur operating expenses that are higher than those of mutual funds investing exclusively in U.S. equity securities due to the higher custodial fees associated with foreign securities investments.

The Morgan Stanley Capital International (MSCI) Emerging Markets IMI Index (net) is a free float-adjusted market capitalization index that is designed to measure equity market performance of 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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