

Fund Manager Commentary

William Blair Emerging Markets Small Cap Growth Fund

Fund Performance & Positioning

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

Underperformance versus the Index was primarily driven by negative stock selection across most sectors. Stock selection within the Consumer Discretionary was particularly detrimental, as travel related companies CVC Brasil Operadora e Agencia de Viagens of Brasil (CVC Brazil) and Modetour Network of Korea weighed on relative returns in the period. CVC Brazil is the leading Brazilian travel company that markets its products through exclusive stores, independent agents and online. After a strong rally the prior year, CVC Brazil's share price weakened amid negative investor sentiment on a deteriorating macroeconomic backdrop and real currency depreciation, reflecting the negative impact on international travel packages. Modetour is a high quality travel agency exposed to structurally attractive outbound travel demand in Korea, which is being driven by a growing emphasis on leisure/travel activities among Koreans, capacity expansion at the Incheon International Airport, and increasing demand from retiring baby boomers. Modetour's share price declined due to concerns over decelerating outbound travel growth and disappointing first half 2018 earnings. Financials was also a key detractor, dragged down by Argentinean bank Grupo Supervielle amid broader risk aversion impacting Argentina. Headquartered in Buenos Aires, Supervielle offers retail and corporate banking, treasury, consumer finance, insurance, asset management and other products and services nationwide to a broad customer base.

Top 10 Holdings¹ as of 6/30/18

<i>Company Name</i>	<i>% of Fund</i>
Korea Investment Holdings Co., Ltd.	1.6%
Globalwafers Co., Ltd.	1.5%
51Job, Inc.	1.4%
3SBio Inc.	1.4%
Orion Corp.	1.4%
TCI Co., Ltd	1.4%
Walsin Technology Corporation	1.3%
Kingdee International Software Group Company Limited	1.2%
Baozun Inc.	1.2%
Safaricom PLC	1.2%
Total Top 10	13.6%

Partially offsetting these effects was positive stock selection within the Information Technology and Health Care sectors. Within Information Technology, Yageo and HUYA bolstered relative performance. Yageo is the Taiwanese passive components manufacturer. It is an indirect beneficiary of rising demand for high-end passive components, which in turn is driven by increasing complexity in wireless communication and electronic content gains in automotive and industrial applications. The stock rallied on favorable industry dynamics (tight supply and strong demand in passive components) which allowed the company to raise prices, coupled with the positive effects of capacity expansion and recent acquisitions. HUYA is a new IPO of the leading online games streaming platform in China, with 93 million monthly active users. We believe the company is well positioned to benefit from secular growth in live streaming and e-sports. We expect the company to deliver strong revenue growth and improving profitability as it attracts new users and increases monetization. Within the Health Care sector, Wuxi Biologics, a contract development and manufacturer of biological drugs in China, boosted returns. The share price accelerated amid Wuxi's strong operating performance and growth outlook supported by strong demand, market share gains, capacity expansion and strong pipeline of compounds likely to

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.

translate into significant manufacturing contracts in the future.

During the period, Health Care exposure was increased to an overweight position through additions to existing holdings and new purchases, including Hartalega Holdings — one of the leading Malaysian glove manufacturers and the world's largest producer of nitrile gloves. This was offset by a reduction in Financials and Industrials exposures. Within Financials, South African holdings Capitec Bank, PSG Group and Coronation Fund Managers were among the larger liquidations. From a geographic perspective, notable adjustment was increases to China, offset by decreases to South Africa and Brazil.

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	Since Incep.
Class I (SI: 10/24/11)	-9.58	-9.34	6.52	2.42	7.37	10.86
Class N (SI: 10/24/11)	-9.63	-9.49	6.22	2.10	7.03	10.54
MSCI Emerging Markets Small Cap Index (net)	-8.60	-8.45	5.64	2.55	4.32	4.75

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.35	1.30
Class N	1.68	1.55

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. Investing in securities of smaller companies tends to be more volatile and less liquid than securities of larger companies. 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. 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 Morgan Stanley Capital International (MSCI) Emerging Markets Small Cap Index (net) is a free float-adjusted market capitalization index that is designed to measure equity market performance of small cap companies in 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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