Fund Manager Commentary

William Blair Small Cap Growth Fund

2Q 2018

Market Overview

Strong second quarter performance across U.S. growth equity benchmarks placed them among the strongest performing investment styles year-to-date. In contrast, first quarter returns were more muted. After robust market performance in January, inflationary fears arose causing market volatility to spike and most major equity benchmarks to retreat. While companies generally reported strong financial results for the prior quarter and economic data was mostly positive, trade tensions and building inflationary pressures weighed on returns for the duration of the first quarter.

In the second quarter, growth style indices were broadly positive and volatility moderated from elevated first quarter levels. Higher stock prices and declining volatility were supported by a healthy U.S. economy. Retail spending rebounded, housing starts increased and manufacturing activity remained robust despite an appreciating U.S. dollar. In addition, consumer and business confidence remained elevated. With unemployment reaching 3.8%, its lowest level since 2000, and core inflation just over 2%, the Federal Reserve announced its second rate increase of 2018 and communicated expectations for two more before year end.

With a strong fundamental backdrop and a positive tax impact, U.S. corporations generally posted robust earnings growth. As a gauge, corporations in the S&P 500 Index reported first quarter earnings growth of approximately 25%, as compared to the same period in the prior year, with over 80% of companies in the Index topping investor expectations. However, aggregate forward P/E ratios contracted as investors appeared to be mindful of risks on the horizon. Notably, trade tensions between the U.S. and China were a focus for investors over the course of the quarter, and as more countries became involved, anxiety grew that tariffs could potentially escalate into a trade war.

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

Company Name	*% of Fund*
HealthSouth Corporation	2.0%
Ligand Pharmaceuticals Incorporated	1.9%
j2 Global, Inc.	1.7%
Horizon Pharma Public Limited Company	1.7%
Blue Bird Corporation	1.6%
BWX Technologies, Inc.	1.5%
Encore Capital Group, Inc.	1.5%
Cambrex Corporation	1.5%
Douglas Dynamics, Inc.	1.5%
Pure Storage, Inc.	1.4%
Total Top 10	**16.3%**

Fund Review & Outlook

The William Blair Small Cap Growth Fund (Class N shares) outperformed its benchmark, the Russell 2000 Growth Index, during the second quarter.

Outperformance in the second quarter was the result of stock specific drivers. Our top individual contributor for the period was Consumer Staples holding Primo Water Corporation, a provider of multi-gallon purified bottled water, self-service refill water and water dispensers. The stock outperformed after reporting strong fundamental results and paying down a portion of its debt, which was viewed favorably given the lower anticipated interest expense going forward. From a sector perspective, strong selection in Health Care and Information Technology also positively impacted performance.

[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.

Our top contributor in Health Care was Codexis, a protein engineering company whose CodeEvolver platform enables faster and more cost-effective enzyme manufacturing. Outperformance was driven by first quarter revenue results that supported the notion of continued strong demand for CodeEvolver. Standout performers in Information Technology included USA Technologies, Etsy and Varonis Systems.

Conversely, top detractors from relative performance included Universal Electronics and Hilton Grand Vacations in Consumer Discretionary, and MaxLinear in Information Technology. Remote control developer Universal Electronics underperformed as delays from its cable operator customers in deploying next generation remotes negatively impacted first quarter results and second quarter guidance. At the sector level, selection in Financials detracted from performance including our positions in Encore Capital Group and Virtu Financial. Encore Capital Group, which provides debt management and recovery solutions, underperformed on the announcement that it would buy the remaining unowned stock of its U.K. subsidiary, Cabot Credit Management, at a time when some investors were concerned about competition in Europe.

Despite the Fed pursuing monetary tightening and the potential for a global trade war, optimism still persists across consumers, businesses and investors as we enter the tenth year of the current economic expansion. While rates still remain low relative to history, the Fed has telegraphed a path of increases and their ability to navigate the economy in the face of inflationary pressures from a potential trade war remains a risk. Further, continued uncertainty around the ultimate outcome of proposed tariffs could disrupt business planning and dampen overall productivity. However, the impact of fiscal stimulus in the form of lower corporate tax rates has largely overwhelmed trade concerns thus far. One early benefit of corporate tax reform in the U.S. has been an increase in capital expenditures, which in turn has the potential to boost productivity and create jobs longer-term. In addition, the current administration has been aggressive in reducing regulation on businesses, which could be a continued tailwind for companies.

It remains to be seen how long the expansion can persist given the unprecedented fiscal stimulus at this point of the economic cycle. Broadly speaking, corporate earnings trends and forward-looking guidance are reflective of the strong economy. But to the extent that rising wages, raw materials prices and freight costs begin to compress margins for the average company, we believe our portfolio companies, which generally offer strong value propositions to their customers and have more pricing flexibility, are better positioned to withstand these pressures. Our focus remains on identifying companies with durable growth drivers, independent of the economic backdrop, whose stocks present compelling risk/reward opportunities.

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

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 12/27/99)	9.89	15.57	27.02	17.47	16.35	13.11
Class N (SI: 12/27/99)	9.81	15.41	26.65	17.16	16.06	12.81
Russell 2000® Growth Index	7.23	9.70	21.86	10.60	13.65	11.24

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.25	1.25
Class N	1.54	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 4/30/19.

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 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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