William Blair

2Q 2018

Fund Manager Commentary
William Blair Mid Cap Growth Fund

Market Summary

Strong second quarter performance across U.S. growth equity benchmarks placed U.S. growth equities 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***
CoStar Group, Inc.	3.5%
Copart, Inc.	3.4%
Verisk Analytics, Inc.	3.2%
Ross Stores, Inc.	3.1%
The Progressive Corporation	2.8%
Ball Corporation	2.7%
BWX Technologies, Inc.	2.7%
Six Flags Entertainment Corporation	2.5%
Booz Allen Hamilton Holding Corporation	2.5%
Domino's Pizza, Inc.	2.4%
Total Top 10	**28.8%**

Fund Review & Outlook

The William Blair Mid Cap Growth Fund (Class N shares) outperformed its benchmark, the Russell Midcap Growth Index, during the second quarter. Both stock selection and style contributed to the positive relative performance. Stock selection was particularly strong in Consumer Discretionary including our positions in Domino's Pizza and Vail Resorts. Pizza restaurant chain Domino's Pizza outperformed primarily due to positively trending data from franchisee surveys and management confidence about the strength of the underlying business momentum. The top individual contributor to the portfolio was ABIOMED (Health Care) which develops, manufactures and markets advanced medical technologies designed to assist or replace the pumping function of a failing heart. The company reported strong results as its Impella heart pump is increasingly becoming the standard of care for acute

[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.

heart failure patients. Other top contributors were CoStar Group (Industrials) and WEX (Information Technology). Conversely, the top detractor from performance was food service and kitchen equipment maker Middleby Corp (Industrials). The company reported revenue and earnings were below expectations for the prior quarter primarily due to weakness in its Commercial Foodservice segment. Metal packaging maker Ball Corporation (Materials) was also a top detractor due in part to North and Central American aluminum can volumes, which declined given Ball's exposure to "big beer" where a consumer shift toward imported and craft beers has negatively impacted volumes. Other top detractors were Xylem (Industrials), Concho Resources (Energy) and Red Hat (Information Technology). From a style perspective, our higher growth bias was a tailwind in the quarter.

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: 02/01/06)	5.55	11.75	22.72	9.13	10.96	9.91
Class N (SI: 02/01/06)	5.45	11.63	22.45	8.85	10.69	9.63
Russell Midcap® Growth Index	3.16	5.40	18.52	10.73	13.37	10.45

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.23	0.95
Class N	1.49	1.20

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 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. The securities of smaller and medium sized companies tend to be more volatile and less liquid than securities of larger companies. In addition, small and medium sized companies may be traded in lower volumes. This can increase volatility and increase the liquidity risk whereby the Fund will not be able to sell the security on short notice at a reasonable price. The Fund is not intended to be a complete investment program. The Fund is designed for long-term investors.

The Russell Midcap Growth Index is an index that is constructed to provide a comprehensive and unbiased barometer of the mid-cap growth market. 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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