William Blair

3Q 2018

Fund Manager Commentary
William Blair Small Cap Value Fund

Market Review

The domestic equity benchmarks continued to forge higher in the third quarter, supported by continued robust corporate earnings growth, even excluding the impact of lower corporate tax rates due to tax reform. Further supporting the market's move higher was strong economic data, highlighted by quarterly GDP growth of 4.2%, strong payroll gains given the prevailing employment environment, and higher average hourly earnings. The strong employment environment, with an unemployment rate that continues to hover below 4%, and inflation that is near the Federal Reserve's (Fed) target of 2%, contributed to investor confidence that that the Fed would continue normalizing interest rates. Given the strong domestic economic landscape, the Fed raised interest rates late in the quarter, as expected, and indicated it may do so again later this year as long as there is no deterioration in the domestic economic data.

Market volatility remains historically low despite continued trade war concerns with China and other trading partners, geopolitical issues in Turkey and Italy, and increased friction between political parties domestically. Although the domestic growth backdrop generally remains healthy, there are a number of risks that could alter the trajectory of the continued improvement in the domestic economy and increase the level of market volatility.

Fund Review

The William Blair Small Cap Value Fund (Class N shares) outperformed its benchmark, the Russell 2000 Value Index, during the third quarter. The Fund's relative outperformance was driven by the combination of broad-based stock selection across most sectors and positive style tailwinds given the Fund's larger market cap and higher quality biases as flows into small cap ETFs slowed considerably from last quarter. At the sector level, the most significant contributor to relative performance was Information Technology due to strong stock selection throughout most industries. The most significant contributors included IT Services, Semiconductors & Semiconductor Equipment, and Electronic Equipment, Instruments & Components. Relative performance within Industrials bounced back this quarter as the sector was a contributor to relative performance. Within the sector, stock selection within Electrical Equipment, Building Products, and Commercial Services & Supplies were the main drivers of performance. Although Communication Services, formerly Telecommunications, was the best performing sector of the market, it was the largest detractor from relative performance mainly due to the lack of exposure to Alternative Carriers. Consumer Discretionary was slight detractor during the quarter primarily due to an underweight to and stock selection within Specialty Retail. Looking specifically at stock selection, the Fund's largest contributors to relative performance were LiveRamp (Technology), Dave & Buster's Entertainment

Top 10 Holdings[1] as of 9/30/18

Company Name	***% of Fund***
Encompass Health Corp	1.8%
Integer Holdings Corporation	1.7%
Selective Insurance Group, Inc.	1.6%
CONMED Corporation	1.6%
Belden Inc.	1.5%
Brady Corporation	1.5%
Radian Group Inc.	1.4%
IBERIABANK Corporation	1.4%
Sterling Bancorp	1.4%
The Hanover Insurance Group, Inc.	1.4%
Total Top 10	**15.3%**

[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.

(Consumer Discretionary), and Integer Holdings (Health Care). Offsetting these contributors were our investments in TopBuild (Consumer Discretionary), Magellan Health (Health Care), and PDC Energy (Energy).

Outlook

As the current bull market progresses well into its tenth year, our recent outlook remains the same as we continue to be constructively optimistic on the domestic equity market, even in the face of numerous risks which seems to expand on a quarterly basis. Generally speaking, solid domestic economic data and strong corporate earnings results continue to support the market's move higher; however, corporate earnings growth may begin to moderate as we approach the one year anniversary of the passing of tax reform and the resulting benefit to corporate earnings from lower corporate tax rates. The risks to the trajectory of the U.S. economy are numerous and include additional tariffs, a full-blown trade war, a monetary policy misstep by the Fed, emerging market instability, the upcoming mid-term elections, and additional geopolitical developments. The domestic equity market has been able to overcome the multitude of risks with strong corporate earnings and economic data, but the ultimate question is how long can this persist?

We continue to be mindful of escalating corporate debt levels, and believe investors should place more of an emphasis on company balance sheets. Many companies seem to have been encouraged to take on considerable debt over the years as a result of a perpetually low interest rate environment. However, with the continued tightening of monetary policy and the potential for higher interest rates on the horizon, the ability of companies to service these higher debt levels will become more of a concern. We believe these lower quality companies, that are either more highly levered or lack sufficient cash flow to service their debt burden in a higher interest rate environment, should struggle and the stocks of higher quality companies with solid cash flow should outperform.

From our bottom up perspective, we remain constructive on corporate earnings. With many companies facing increased margin pressure from higher wages, raw material prices, and freight costs, some of this year's pressure has been offset by a lower corporate tax rate. However, the year-over-year benefit from the lower corporate tax rate will deteriorate later this year and corporate earnings growth is expected to moderate as a result. We remain concerned about rising input costs and are focused on owning companies that have pricing power and are able to mitigate inflationary pressures via new products and price increases. As always, our focus remains on identifying quality companies at discount prices and corporate transformation opportunities, and we continue to find good ideas across sectors. Given our investment approach, we believe the Fund is well-suited to withstand a variety of market scenarios and add value over the long-term.

INVESTMENT PERFORMANCE % (as of 09/30/18)

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 10/01/99)	3.34	4.59	6.51	13.38	8.96	10.18
Class N (SI: 12/23/96)	3.29	4.42	6.27	13.11	8.70	9.92
Russell 2000® Value Index	1.60	7.14	9.33	16.12	9.91	9.52

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.29	1.25
Class N	1.55	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 holds equities which may decline in value due to both real and perceived general market, economic, and industry conditions. Investing in smaller companies involves special risks, including higher volatility and lower liquidity. 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. Diversification does not ensure against loss.

The Russell 2000 Value Index is the Fund's primary benchmark and consists of small-capitalization companies with below 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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