Fund Manager Commentary
William Blair Global Leaders Fund

Fund Performance & Positioning

The William Blair Global Leaders Fund (Class N shares) underperformed its benchmark, the MSCI ACWI IMI Index (net), during the third quarter. Underperformance was driven by a combination of allocation and stock selection effects. An overweight allocation to the Consumer Discretionary sector coupled with negative stock selection within the Information Technology and Energy sectors detracted from performance in the period, while above average stock selection within the Industrials and Materials sectors were the largest contributors to positive relative returns.

Within Information Technology, Tencent Holdings hampered relative results. Shares of the Chinese online gaming and social network giant came under pressure when regulators announced plans to curtail the number of new online games and to employ new methods to reduce the playing time of minors. We believe this is a temporary issue. Tencent's previous implementation of age-based time limits on games had a very limited impact on gaming revenue, and we expect it will remain well-engaged with government concerns and continue to proactively address cultural concerns around the business model. Suncor Energy, the Canadian upstream producer within the Energy sector, announced lower than expected production growth due to increased maintenance downtime. Looking forward, maintenance spend should be significantly lower, resulting in strong operating performance and a return of cash to shareholders.

Mitigating these detractors was positive stock selection in the Industrials sector, as Southwest Airlines bolstered relative results. Historically, the U.S. airline industry exhibited a grow or die philosophy where deregulation and abundant capacity at key airports forced carriers to expand rapidly to build scale, box out competition, and grab key landing and takeoff slots at the expense of profitability. After the deep economic recession in 2009, elevated fuel prices and stretched balance sheets led to yet another period of poor profitability. Subsequently, U.S. airlines embarked on rapid consolidation, and now the top four carriers control nearly 86% of the U.S. air travel market. Capacity growth has been the slowest post deregulation, leading to sharply higher load factors, stable pricing, higher ancillary fees and sharply higher margins. Given this industry backdrop, Southwest Airlines is positioned to perform well. It exhibits differentiation relative to its peers due to an entrenched network, superior service offering and a strong brand resonance. It operates a point to point service instead of a traditional hub and spoke model that relies on fewer but more utilized routes, providing direct connection between cities that otherwise need a lengthy hub transfer. The fact that Southwest operates a mostly domestic network is another advantage as the other carriers operate international routes that are fiercely competitive with structural advantages that are less apparent relative to the slot and capacity constrained domestic network.

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

Company Name	*% of Fund*
Amazon.com, Inc.	3.2%
Alphabet Inc.	2.7%
Unitedhealth Group Incorporated	2.4%
JPMorgan Chase & Co.	2.2%
Mastercard Incorporated	2.1%
Taiwan Semiconductor Manufacturing Company, Ltd.	2.0%
Union Pacific Corporation	2.0%
The Home Depot, Inc.	2.0%
The Boeing Company	1.9%
Worldpay, Inc.	1.9%
Total Top 10	**22.4%**

[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.

Nissan Chemical, the innovative Japanese producer of niche chemicals for the electronics, agriculture, and pharmaceutical industries, boosted relative performance within the Materials sector. Nissan Chemical has a leading position in their core products and a track record of innovation supported by its commitment to high levels of research and development. The ability to post good growth in the context of challenging smartphone/display market continues to show Nissan's strength.

During the period, Health Care exposure was increased through the purchase of Illumina, the clear global leader in the growing field of genomics and the technology leader in gene sequencing. The company is enabling the rapid growth in our understanding of genetic variation and the role it plays in health, disease, and drug response. Illumina has a durable, competitive advantage with its dominant market share and its ability to continue to innovate to develop new technologies much faster than its competitors. We expect it to drive and capture the majority of the industry's growth going forward and believe growth estimates are conservative. Financials exposure was reduced during the period. BNP Paribas, the leading French bank, was sold for better growth opportunities elsewhere. Exposure to Consumer Discretionary also declined as a result of the liquidations of Yum China and Valeo. We exited Yum China after the shares rallied on news of a buyout by private equity firm Hillhouse Capital, which it reportedly later abandoned. Valeo, the global auto component manufacturer, was sold due to recent poor execution coupled with a broad slowdown in autos. From a geographic perspective, notable adjustments were an increase in the U.S. offset by a decrease in Japan exposure. The Fund's weighting in Emerging Markets approximated 7.5% at the end of the period, down from 8.5% at the beginning of the period.

Market Review & Outlook

Global equities advanced in the third quarter primarily driven by the U.S. significantly outperforming non-U.S. developed and emerging markets — continuing the trend of U.S. equity dominance. The U.S. bull market run became the longest in history despite escalating concerns on geopolitical tensions and rising interest rates, as Treasury bond yields surged higher in September.

U.S. equities extended year-to-date gains on robust strength in corporate earnings and positive signs of continued economic growth. Health Care and Information Technology drove outperformance. Mega-caps within IT, such as Amazon, Alphabet, and Apple, extended to record highs on consensus-beating quarterly results. This market cap leadership was representative of the broader U.S. market performance as large caps outperformed their small cap counterparts by approximately 3.2%, as measured by the MSCI U.S. Standard and Small Cap indices.

Non-U.S. developed market equity performance was mixed in the third quarter with positive performance in Japan and weaker returns in the U.K. Japanese equities rallied on the reelection of Shinzo Abe to the leadership position of the ruling Liberal Democratic Party; a positive signal to investors that Abenomics policies would continue. The reelection coupled with a weakening yen bolstered investor sentiment in September bringing Japanese equities into positive territory year-to-date. Within the U.K., the pound slumped to an 11-month low versus the U.S. dollar on Brexit uncertainty and growing fears about the potential collapse in talks. U.K. equities recovered in September, but remained down (-2.00% MSCI U.K. IMI) for the quarter.

Emerging markets equities continued to decline in the third quarter and year-to-date amid heightened geopolitical tension and a strengthening U.S. dollar. The Turkish Lira plunged to record lows following the U.S.-imposed sanctions on Turkey for failure to release evangelical pastor Brunson. Russian and South Africa currencies sold off in solidarity with the Turkish Lira. Trade war rhetoric remained a headwind for China, compounded by concerns about decelerating macro indicators and the weakening renminbi currency, which further weighed on sentiment and Chinese equities broadly.

From a style perspective, value-oriented market leadership accelerated in September within non-U.S. developed and emerging markets. The broad sell-off of growth oriented stocks across emerging markets was most pronounced within China and India, as measured by the MSCI China IMI Growth and the MSCI India IMI Growth indices.

As we head into the final quarter of 2018, surveys suggest that global growth is likely to decelerate modestly into the remainder of this year. Specifically, purchasing manager surveys continue to point to deceleration in the pace of industrial orders growth and subsequent industrial production growth. Given substantial and relatively abrupt changes in U.S. trade policy, we now expect near term economic activity to slow somewhat as firms work out the new rules and adjust to the impact on their supply chains.

At the same time, we expect the growing divergence between the U.S. and other economies to begin to normalize. Specifically, in Q2 2018 the U.S. economy expanded at an annual rate of 4.2% — the rate of growth which we believe is likely to mark the cyclical high. Consistent with this high economy-wide growth rate, corporate earnings growth accelerated to 22% YoY, a decade high (excluding the post GFC bounce). Barring additional policy support, it is difficult to see U.S. corporates maintaining this rate of profit growth. If the rest of the world continues to grow at the current pace, while the U.S. economy slows marginally, the growth wedge and by extension the substantial outperformance of U.S. markets vis-à-vis the rest of the world is likely to moderate from here.

Rising U.S. yields and increasing fiscal deficits in emerging markets (EMs) have reduced U.S. dollar liquidity in 2018. More recently, higher oil prices in the wake of the U.S. re-imposing economic sanctions on Iran contribute to a more challenging macroeconomic environment for the EMs, as many are large energy importers. Beyond these broader macro headwinds, turbulence within EM equities and currencies has been largely idiosyncratic and self-inflicted: the South African government reopening the possibility of farm repossession, for example, and the upcoming presidential election in Brazil where the top two contenders are from the far-right and the far-left. Increasingly reckless economic policies in Turkey and the exposed fragility of the Indian financial system have also compounded EM underperformance versus developed markets.

On September 24th, the Trump administration implemented 10% tariffs on $200 billion worth of imported goods from China, which will increase to a rate of 25% on January 1st, 2019. This is in addition to the $50 billion of tariffs that were implemented in July and August. While the first set of tariffs was initially focused on industrial goods such as materials, machinery, and chemicals, the second round of tariffs is targeting over 5,700 consumer goods, including agricultural products, textiles, and furniture.

With the implementation of the second round of tariffs including consumer goods, we are expecting inflation from the additional tariffs to pick up in the near term. Corporations that are affected by the additional tariffs will either have to absorb the costs themselves, leading to a decrease in margins, or will pass along the additional costs to the end consumer to keep their profits intact. As cost increases are pushed to the consumer, we are expecting to see an uptick in inflation starting in 2019.

Through much of this year, China has been implementing significant and wide-spread changes in its tax structure, affecting both corporate and income taxes. Reducing taxes for households is expected to support consumer demand in China. We are not expecting China to implement a large stimulus, but slow policy changes have been made to keep growth steady. Year to date, the renminbi is down nearly 6% against the U.S. dollar. As the dollar strengthens, further depreciation cannot be ruled out.

From a portfolio strategy perspective, positioning within our ACWI-oriented funds has generally reflected our more cautious outlook, with reduced EM weightings in favor of increased developed market exposure. Within our dedicated EM funds, we have maintained overweighted positions in India and Mexico, and underweighted exposures in Korea and Taiwan. 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 09/30/18)

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 10/15/07)	3.61	10.30	18.30	16.03	10.80	10.10
Class N (SI: 10/15/07)	3.56	10.12	17.97	15.67	10.49	9.80
MSCI All Country World IMI Index (net)	3.88	3.69	9.63	13.47	8.69	8.49

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.13	1.05
Class N	1.43	1.30

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. 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. Investing in securities of smaller companies tends to be more volatile and less liquid than securities of larger 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. Investing in smaller companies involves special risks, including higher volatility and lower liquidity. Diversification does not ensure against loss.

The Morgan Stanley Capital International (MSCI) All Country World IMI Index (net) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and 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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