Fund Manager Commentary
William Blair Small-Mid Cap Growth Fund

Market Summary

Returns for U.S. growth style indices were robust in the third quarter as many finished the quarter at or near all-time highs. After a start to the year that included a spike in volatility amid concerns about rising input costs and elevated valuations, returns for the second and third quarters reflected a healthy domestic economy and strong corporate performance. Specific to the third quarter, investors appeared to dismiss concerns about an escalating trade war and a flattening yield curve, which has sometimes preceded an economic slowdown. Reported U.S. GDP growth improved to 4.2%, the fastest since 2014. Earnings growth continued to be robust as businesses benefited from the corporate tax cuts signed into law late last year as well as increased corporate and consumer spending. Earnings growth for the S&P 500 improved to 26% compared to the same period in 2017 with 76% of companies topping expectations in the most recent quarterly reporting season. While input costs have risen, they have not increased as quickly as some predicted and fears that inflation could dampen the improving backdrop seem to have subsided for the time being. Unemployment remained at historically low levels, while wage growth rose only modestly. Broadly speaking, the economic and corporate backdrop remained positive and equity markets continued their upward trajectory.

Fund Review & Outlook

The William Blair Small-Mid Cap Growth Fund (Class N shares) outperformed its benchmark, the Russell 2500 Growth Index, during the third quarter, despite a return of 7.17% for the benchmark.

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

Company Name	*% of Fund*
CoStar Group, Inc.	2.7%
BWX Technologies, Inc.	2.7%
Encompass Health Corp	2.5%
Copart, Inc.	2.4%
Ligand Pharmaceuticals Incorporated	2.4%
Booz Allen Hamilton Holding Corporation	2.2%
DexCom, Inc.	2.1%
Veeva Systems Inc.	2.0%
Six Flags Entertainment Corporation	2.0%
TransUnion	2.0%
Total Top 10	**23.0%**

Both style and stock selection contributed to the outperformance. From a style perspective, our larger size bias was a tailwind. Pertaining to stocks, stock selection in Health Care was a positive contributor to performance. Four of the top five individual contributors were Health Care stocks given the sector outperformed the overall benchmark and many of our holdings outperformed the sector. DexCom, a medical device company focused on continuous glucose monitoring (CGM), was the top contributor to the Fund due to high demand for its G5 CGM device which caused quarterly revenue to be better-than-expected. Glaukos, the maker of a minimally-invasive device to treat glaucoma called iStent, was also a top contributor. The main competitor to iStent was pulled from the market in the quarter due to safety concerns that are unique to the competing product. Other top contributors were Ligand Pharmaceuticals and Veeva Systems, both of which reside within Health Care, and Rogers Corporation (Information Technology). Conversely, aggregates producer Martin Marietta Materials and online salvage car auction company Copart were the largest detractors. Martin Marietta underperformed due delays in construction projects caused by the tight labor market. Copart, which has materially outperformed year-to-date, underperformed in the quarter due 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.

reported earnings that were slightly below expectations. Other top detractors were Floor & Decor Holdings (Consumer Discretionary) as well as Virtu Financial (Financials) and Bank OZK (Financials).

The U.S. economy remains healthy with robust corporate and consumer optimism and leading indicators that show no signs of a slowdown. However, there are a number of risks still present that could slow or derail growth. The most prominent appears to be trade tensions with China, as both countries increased threats when the first round of tariffs were implemented in September. While the products affected by these tariffs are known, it remains to be seen how consumers and businesses will be impacted. An abrupt rise in the price of goods in either country could cause consumer sentiment to decline and be a headwind to growth. Additionally, many U.S. businesses rely on China as either a source of revenue or have aspects of their supply chain located within the country. These businesses could face disruption in the near to intermediate term.

Specific to the U.S., rising input costs and higher interest rates are both prominent risks that could dampen growth and impact valuations. Amidst a tight labor market, many companies are attempting to attract or retain workers by increasing wages which could pressure margins. Adding to expense pressures, the cost to transport goods has risen to higher-than-normal levels and the price of oil increased to over $70 per barrel at the end of the quarter. Higher interest rates could pressure corporate and consumer borrowing, and, in turn, spending.

While we remain optimistic about the U.S. economy, we believe it is important to be aware of these risks and how corporate performance could be affected. Given that we are now over nine years into an economic recovery and equity market returns have been particularly robust since early 2016, we believe it is as important as ever to focus on finding businesses with durable growth drivers and whose stocks present attractive risk/reward opportunities. We believe building a portfolio of companies and stocks with these characteristics will allow us to outperform in a variety of different economic scenarios.

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

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 12/29/03)	8.47	20.30	27.02	19.43	15.12	15.12
Class N (SI: 12/29/03)	8.39	20.03	26.68	19.09	14.82	14.81
Russell 2500™ Growth Index	7.17	15.78	23.13	17.96	12.88	13.61

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.16	1.10
Class N	1.43	1.35

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 and mid 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 small and medium capitalization companies involves special risks, including higher volatility and lower liquidity. Small and mid-cap stocks are also more sensitive to purchase/sale transactions and changes in the issuer's financial condition. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. Diversification does not ensure against loss The Fund is not intended to be a complete investment program. The Fund is designed for long-term investors.

The Russell 2500 Growth Index measures the performance of those Russell 2500 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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