

Fund Manager Commentary  
 William Blair Emerging Markets Growth Fund

**Fund Performance & Positioning**

The William Blair Emerging Markets Growth Fund (Class N shares) underperformed its benchmark, the MSCI Emerging Markets IMI Index (net), during the third quarter. Underperformance was primarily driven by negative stock selection across the Information Technology, Financials, Energy and Materials sectors. Within Information Technology, the overweighting to Internet Software and Services coupled with stock selection within the Electronic Equipment, Instrument and Components industry hurt relative performance. In particular, Yageo Corp, the Taiwanese passive components manufacturer, weighed on relative returns. Following a strong rally in the first half of the year, the stock corrected on a combination of weakening operating momentum, high expectations and broad sector rotation. We sold the stock as a result.

Financials performance was dragged down by the Indian Financials overweighting, as the sector declined on liquidity concerns regarding non-banking financial companies and the financial system broadly. Within the resources-oriented sectors, the most notable detractors to relative performance were the Energy underweighting coupled with Materials stock selection (dragged down by our chemicals selection). Partially offsetting these negative effects were the Materials and Communication Services underweight allocations. Real Estate also added to relative performance, aided by the underweighting and positive stock selection. The latter was boosted by strong results by Vincom Retail, Vietnam's largest retail real estate developer.

<sup>1</sup> 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.

**Top 10 Holdings<sup>1</sup> as of 9/30/18**

<i>Company Name</i>	<i>% of Fund</i>
Alibaba Group Holding Limited	6.6%
Taiwan Semiconductor Manufacturing Company, Ltd.	5.5%
Tencent Holdings Limited	5.1%
Samsung Electronics Co., Ltd.	4.1%
HDFC Bank Limited	3.0%
Tata Consultancy Services Limited	2.9%
Naspers Limited	2.7%
Housing Development Finance Corporation Limited	2.3%
Wal-Mart de Mexico, S.A.B. de C.V.	2.3%
Ping An Insurance (Group) Company of China, Ltd.	2.3%
<b>Total Top 10</b>	<b>36.8%</b>

Furthermore, Wal-Mart de Mexico, the Mexican retailer, was a notable contributor within Consumer Staples sector. The stock benefited from improving consumer sentiment in Mexico and currency tailwinds.

From a regional perspective, Emerging Asia was a key detractor to relative performance, hampered by China and Korea stock selection coupled with the India overweight. In particular, IT and Health Care selection weighed on China results while China-related holdings hampered relative performance in Korea. These negative effects were somewhat mitigated by positive contribution from Mexico and Turkey.

During the period, Financials exposure was increased through the purchases of Bank Central Asia and First Abu Dhabi Bank. Bank Central Asia is the Indonesian high quality bank with a large deposit franchise and is well positioned to benefit from the rising interest rate environment in our view. First Abu Dhabi Bank is the leading bank in UAE. We believe the solid growth outlook for the bank is underpinned by its leading market share position, better-than-expected merger synergies and an improving macroeconomic backdrop. Consumer Discretionary exposure was

reduced to an underweight position during the period through trims and outright liquidations. Chinese education holdings New Oriental Education and Tal Education were sold amid increased regulatory headwinds. Hotel Shilla, the Koran duty free store operator, was sold on the back of increased competition and concerns regarding Chinese tourists demand. Exposure to Health Care also declined as a result of the sale of Chongqing Zhifei Biological, the Chinese vaccines manufacturer, and reductions to Chinese pharmaceutical companies CSPC and Sino Biopharmaceutical. From a geographic perspective, notable adjustment was increases to India, offset by a decrease to China.

### 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: 06/06/05)	-7.71	-14.36	-8.37	9.37	3.45	5.40
Class N (SI: 06/06/05)	-7.79	-14.57	-8.62	9.10	3.20	5.14
MSCI Emerging Markets IMI Index (net)	-1.45	-8.22	-1.18	11.72	3.51	5.65

**EXPENSE RATIOS (%)**

	Gross Expense
Class I	1.27
Class N	1.50

Expenses shown are as of the most recent prospectus.

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](http://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. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. The securities of emerging market companies may be subject to greater volatility and less liquidity than companies in more developed markets. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result. Currency rates may fluctuate significantly over short periods of time and may reduce the returns of a portfolio. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. The Fund is expected to incur operating expenses that are higher than those of mutual funds investing exclusively in U.S. equity securities due to the higher custodial fees associated with foreign securities investments.

The Morgan Stanley Capital International (MSCI) Emerging Markets IMI Index (net) is a free float-adjusted market capitalization index that is designed to measure equity market performance of 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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