

Fund Manager Commentary
 William Blair Emerging Markets Leaders Fund

Fund Performance & Positioning

The William Blair Emerging Markets Leaders Fund (Class N shares) underperformed its benchmark, the MSCI Emerging Markets Index (net), during the third quarter. Underperformance was primarily driven by an overweight allocation in the Consumer Discretionary sector. Relative performance in the sector was dragged down by auto-related names amid decelerating growth and Chinese hotel operator Huazhu Group due to concerns about slowing consumption growth in China and disappointing guidance. Stock selection within the Health Care sector also hampered relative performance, led by weak performance by Chinese pharmaceutical companies CSPC Pharmaceutical Group and Jiangsu Hengrui Medicine, as both were affected by regulatory changes aimed at reducing prices in generic and cancer drugs. Finally, the Energy underweighting also detracted to relative returns as the sector was the best performing in emerging markets. Partially offsetting these effects was the lack of exposure to Real Estate coupled with positive stock selection within Industrials. Within this sector, Grupo Aeroportuario del Pacifico, the Mexican airport operator, contributed to relative returns as the stock was lifted by solid operating performance, favorable growth outlook and stronger currency.

From a regional perspective, Emerging Asia was a key detractor to relative performance, hampered by China and India overweightings and stock selection. In particular, Consumer Discretionary, IT and Health Care exposure weighed on China results while the Financials overweighting and auto-related names hurt India relative performance. These negative effects were somewhat mitigated by positive stock selection in Taiwan (bolstered by strong

Top 10 Holdings¹ as of 9/30/18

Company Name	% of Fund
Taiwan Semiconductor Manufacturing Company, Ltd.	6.6%
Tencent Holdings Limited	6.1%
Alibaba Group Holding Limited	5.9%
Samsung Electronics Co., Ltd.	3.2%
Naspers Limited	2.9%
Ping An Insurance (Group) Company of China, Ltd.	2.8%
Grupo Financiero Banorte, S.A.B. de C.V.	2.6%
Infosys Limited	2.5%
Shenzhou International Group Holdings Limited	2.0%
Credicorp Ltd.	2.0%
Total Top 10	36.6%

performance by Taiwan Semiconductor Manufacturing) and Mexico (benefiting from the overweighting and strong results by Grupo Aeroportuario del Pacifico and Banorte). During the period, Consumer Discretionary exposure was reduced through the liquidations of Yum China Holdings and Brilliance China Automotive. Yum China Holdings, the fast food restaurant operator, was sold after the stock jumped on the potential buyout by Hillhouse Capital Group, while Brilliance China Automotive, the car manufacturer, was sold due to decelerating growth coupled with concerns related to the BMW joint venture amid changes in the regulatory backdrop. Materials exposure was increased during the period, through the purchase of UPL, the Indian agrochemical company. The investment thesis was predicated on improving growth outlook (amid recovering trends in Latin America) coupled with expected benefits of the Arysta acquisition. Exposure to Consumer Staples also increased. From a geographic perspective, notable adjustments were increases to Mexico and Taiwan, offset by a decrease to China.

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.

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	Since Incep.
Class I (SI: 03/26/08)	-4.84	-11.27	-5.54	9.22	3.04	5.40	—
Class N (SI: 05/03/10)	-4.86	-11.48	-5.73	8.96	2.76	—	2.82
MSCI Emerging Markets Index (net)	-1.09	-7.68	-0.81	12.36	3.61	5.40	2.95

EXPENSE RATIOS (%)

	Gross Expense
Class I	1.25
Class N	1.47

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. 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.

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The Morgan Stanley Capital International (MSCI) Emerging Markets Index (net) is a free float-adjusted market-capitalization-weighted index that is designed to measure equity market performance of emerging markets. The Index is unmanaged, does not incur fees or expenses, and cannot be invested in directly.

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