Fund Manager Commentary
William Blair International Growth Fund

Fund Performance & Positioning

The William Blair International Growth Fund (Class N shares) underperformed its benchmark, the MSCI All Country World ex-U.S. IMI Index (net), during the third quarter. Underperformance was driven by negative stock selection across most sectors. Stock selection within Consumer Staples was particularly detrimental, hurt by Asahi Group Holdings, a leading food and beverage producer in Japan, and Shiseido, the largest cosmetic company in Japan and the fifth largest cosmetic company in the world. We expect shares of Asahi to be supported by improved domestic beer pricing, upside from its recently acquired European beer businesses, and ongoing cost efficiency initiatives across divisions and regions. Unfortunately, recent domestic volumes have come in lower than expected. We anticipate volumes will rebound as it gathers momentum in the new-genre, higher-alcohol content segment with its Clear Seven brand. Shiseido declined on weaker Chinese visitor growth due to a softer currency and the recent typhoon which closed one of Japan’s busiest airports, both of which should be transitory. New management has reformed the organizational structure to place more responsibility in the hands of local managers, improved strategy execution, accelerated product development, and concentrated Shiseido's investment on prestige brands. We believe these initiatives will result in strong earnings growth after a ten year period of operational underperformance and market share loss.

Partially offsetting these effects was positive stock selection within the Information Technology and Utilities sectors. Within Information Technology, Wirecard contributed to relative results.

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

Company Name	***% of Fund***
TOTAL S.A.	2.3%
AIA Group Limited	1.9%
The Toronto-Dominion Bank	1.8%
Alibaba Group Holding Limited	1.6%
Airbus SE	1.6%
Koninklijke Philips N.V.	1.6%
Lonza Group AG	1.6%
Taiwan Semiconductor Manufacturing Company, Ltd.	1.6%
Royal Dutch Shell plc	1.6%
Suncor Energy Inc.	1.5%
Total Top 10	**17.1%**

The integrated payment service provider operates an attractive business model that benefits from strong secular tailwinds of increasing e-commerce penetration, cross-border transactions, and digital payments. It differentiates itself from pure online gateways with a unique combination of leading multi-channel payment processing technology and a banking license, making it a vertically integrated acquirer, processor, and issuer. In addition, it has gained exposure to faster-growing emerging markets through M&A over the last six years. We believe Wirecard is well-positioned to capitalize on a strong multi-year growth opportunity driven by ongoing secular trends, share gains, cross-selling value added solutions, and integration of recent acquisitions. Orsted, Denmark's largest utility and the world’s leading developer of offshore wind farms, was an additional source of outperformance. Operating performance has been strong, and the recent acquisition of Lincoln Clean Energy, which gives it a presence in the U.S. onshore market, is proving its ability to expand into new markets.

During the period, Health Care exposure was increased through the purchases of Koninklijke Philips (Philips), AstraZeneca, and Coloplast. Philips is becoming a true health care company, where it enjoys leadership positions in most of its businesses.

[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.

Although this transition has largely transpired, the stock still trades at a discount to the average European medical device company, offering an attractive risk/reward opportunity. AstraZeneca, the U.K. based Pharmaceutical company, has the potential for multiple expansion due to its sector-leading growth as pipeline events unfold and confidence in the growth outlook builds. We also purchased Coloplast, a leading supplier of healthcare products with four main categories: Ostomy Care, Continence Care, Urology Care, and Wound & Skin Care. We believe the company is one of the best-run medical device companies based on its best-in-class financial characteristics, ability to consistently outpace market growth, and an outstanding track record of creating shareholder value. These increases were offset primarily by reductions to Consumer Discretionary and Materials. From a geographic perspective, notable adjustments were increases to Developed Europe and the U.K., offset by decreases to Emerging Asia. The Fund's weighting in Emerging Markets approximated 13.5% at the end of the period, down from 20% 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: 10/01/99)	-0.03	-1.67	2.85	9.12	5.28	6.77
Class N (SI: 10/01/92)	-0.13	-1.91	2.54	8.79	4.96	6.45
MSCI All Country World ex-U.S. IMI Index (net)	0.39	-3.27	1.79	10.14	4.39	5.60

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.14	1.14
Class N	1.47	1.45

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. International investing involves special risk considerations, including currency fluctuations, lower liquidity, economic and political risk. Investing in emerging markets can increase these risks, including higher volatility and lower liquidity. Investing in smaller 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. The Fund invests most of its assets in equity securities of international 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. Diversification does not ensure against loss.

The Morgan Stanley Capital International (MSCI) All Country World Ex-U.S. 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, excluding the United States. 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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