William Blair

Fund Manager Commentary
William Blair Small-Mid Cap Growth Fund

Market Summary

Substantially negative fourth quarter equity returns erased prior 2018 gains and U.S. equity indices ended the year in negative territory. Larger cap indices fared better, as the S&P 500 Index narrowly avoided bear market territory, while the Russell 2000 Index declined more than 20% from its peak.

After starting the year with a continuation of 2017 strength, the market sold off and volatility spiked amid concerns of the economy overheating, rising input costs and elevated valuations. Following the early sell off, rising equity returns for the second and third quarters were primarily driven by strong corporate earnings coupled with modest valuation expansion as investor confidence in the durability of the U.S. economic expansion increased. Investors appeared to largely dismiss concerns about an escalating trade war with China and a flattening yield curve, which has sometimes preceded an economic slowdown. Through the first three quarters of 2018, returns for U.S. growth style indices were robust and many ended the third quarter at or near all-time highs.

In a sharp reversal, driven by downdrafts in October and December, equities declined in the fourth quarter as risks that had previously been disregarded came into focus. This was at least partially triggered by Fed Chairman Powell's comments in October that the federal funds rate was "a long way from neutral." Fundamentally, corporate earnings trends continued to be positive, supported by corporate tax cuts and a healthy U.S. economy. Companies in the S&P 500 Index, in aggregate, posted year-over-year earnings growth in excess of 25% for the third consecutive quarter. However, consensus estimates for fourth quarter and 2019 earnings growth were revised downward and valuation multiples contracted. At the same time, oil prices collapsed and the yield curve flattened further. At the core of the reversal in market sentiment was investor concern surrounding U.S. political dysfunction, unresolved trade tensions with China, monetary tightening by the Federal Reserve, softer housing market data and a weaker economic backdrop outside of the U.S. As market participants focused on these uncertainties, volatility rose and equity prices declined markedly, wiping out prior 2018 gains.

Top 10 Holdings[1] as of 12/31/18

Company Name	*% of Fund*
Copart, Inc.	3.0%
CoStar Group, Inc.	2.7%
Ball Corporation	2.5%
Cboe Global Markets, Inc.	2.5%
Booz Allen Hamilton Holding Corporation	2.5%
Euronet Worldwide, Inc.	2.4%
BWX Technologies, Inc.	2.3%
Adtalem Global Education Inc.	2.2%
Live Nation Entertainment, Inc.	2.2%
Veeva Systems Inc.	2.1%
Total Top 10	**24.4%**

Fund Review & Outlook

The William Blair Small-Mid Cap Growth Fund (Class N shares) outperformed its benchmark, the Russell 2500 Growth Index, during the fourth quarter. Outperformance for the quarter was the result of positive stock selection and a style benefit. From a stock-specific standpoint, top contributors were Ball Corporation (Materials) and Euronet Worldwide (Information Technology). Ball Corporation, a provider of metal packaging for food and beverages, outperformed on healthy global volume growth and the secular opportunity for the company as share shifts away from plastic toward aluminum cans. Electronic payment and transaction processing solutions company Euronet Worldwide benefited from strong revenue trends across each of its three business segments and increasingly favorable profitability potential. Other notable contributors to relative returns included

[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.

Adtalem Global Education (Consumer Discretionary), Cboe Global Markets (Financials) and Copart (Industrials). From a style perspective, our typical emphasis on companies with less volatile fundamentals was a tailwind amid market turbulence. Conversely, our top stock detractors were Ligand Pharmaceuticals (Health Care) and BWX Technologies (Industrials). After significant outperformance through the first three quarters of the year, Ligand Pharmaceuticals underperformed along with its biotechnology peers, despite solid company fundamentals. Shares of BWX Technologies, the sole-source provider of nuclear propulsion systems for the U.S. Navy, declined after the company disclosed new information that indicated a materially longer build time for naval nuclear power units than was previously appreciated by investors broadly. Other laggards during the period were Cambrex Corporation (Health Care), Pure Storage (Information Technology) and Weight Watchers International (Consumer Discretionary).

After nearly a decade of economic and stock market expansion, investor focus appears to have shifted toward risks that could derail both. Notably, the Fed has communicated the potential for additional increases in the federal funds rate in 2019, at the same time it shrinks its balance sheet. If too aggressive, Fed action could provide a headwind to growth in 2019. Also prominent is the risk of continued political uncertainty, both in the U.S. and abroad. We closed 2018 with a partial shutdown of the Federal government, emblematic of the political “gridlock” that could continue into 2019 given the balance of power in Congress and frequent changes of key personnel within the administration. Moreover, uncertainty with respect to Chinese tariff negotiations could thwart corporate productivity in the U.S., while escalation to an all-out trade war would have significant ramifications on global growth, with potentially heighted risk for emerging economies that are highly dependent on trade.

In reflection of the above, U.S. equity market valuation multiples contracted significantly during the fourth quarter. At the same time, consensus earnings growth estimates were revised downward, likely in anticipation of a deceleration in U.S. economic growth, fading fiscal stimulus, and pressure on margins including higher interest rates, input prices and wages. That being said, positive profit growth is still expected for 2019, albeit at a more moderate pace than the spectacular earnings growth witnessed in the first three quarters of 2018. Presuming no material fundamental deterioration, and given the fact that both valuation multiples and growth expectations have come down, we are constructive on the U.S. equity market as we head into 2019. While volatility may persist, the reset in both valuations and investor expectations leaves the market with room for upside in the event of positive surprises on the China trade front or an eventual pause in the Fed interest rate hike cycle. We continue to focus our efforts on identifying durable businesses with sustainable growth opportunities that are underappreciated by the market. We believe a portfolio of companies with these characteristics will be rewarded in a variety of economic and market environments.

INVESTMENT PERFORMANCE % (as of 12/31/18)

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 12/29/03)	-18.59	-2.06	-2.06	10.45	8.92	15.81
Class N (SI: 12/29/03)	-18.60	-2.29	-2.29	10.17	8.64	15.51
Russell 2500™ Growth Index	-20.08	-7.47	-7.47	8.11	6.19	14.76

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 and summary prospectus, which you may obtain by calling +1 800 742 7272. Read the prospectus and summary prospectus carefully before investing. Investing includes the risk of loss.

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