Fund Manager Commentary
William Blair International Developed Plus Fund

Fund Performance & Positioning

The William Blair International Developed Plus Fund (Class N shares) underperformed its benchmark, the MSCI World ex-U.S. Index (net), during the fourth quarter. Underperformance versus the Index was driven by a combination of allocation and stock selection effects amid the valuation-led market environment. An overweight allocation to Information Technology, coupled with below average stock selection within the Industrials and Materials sectors, detracted from relative performance. Within the Industrials sector, Nihon M&A Center hampered relative results as the share price weakened despite positive underlying business fundamentals. Nihon M&A Center is a high-quality Japanese growth company that provides advisory services to SMEs facing succession-oriented challenges. It is led by an entrepreneurial management team that has built an attractive network of national relationships aimed at identifying buyers and sellers and sourcing transactions. It has a performance-based culture and incentive system. This has allowed it to steadily increase the number of deal-generating consultants over the past several years; the recent hiring trend is positive and its ambitions for future growth are high. The company has a strong track record of revenue and earnings growth and a history of exceeding its overly conservative guidance. Nihon's fiscal second quarter results strengthened after a disappointing first quarter, as the number of deals closed picked up sequentially and revenue per deal increased given a greater number of larger deals in the quarter.

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

Company Name	*% of Fund*
AstraZeneca PLC	4.3%
Compass Group PLC	4.2%
Diageo plc	4.0%
AIA Group Limited	3.8%
Unilever N.V.	3.7%
The Toronto-Dominion Bank	3.2%
MTU Aero Engines AG	2.8%
Canadian National Railway Company	2.7%
Taiwan Semiconductor Manufacturing Company, Ltd.	2.6%
Partners Group Holding AG	2.5%
Total Top 10	**33.8%**

Boliden AB weighed on relative returns in the Materials sector. Boliden mines processes and sells metals and mineral products, primarily zinc and copper. Other products include gold, lead, silver, and sulfuric acid. The company has mining and milling operations in Europe, and smelting and refining operations in Sweden, Finland and Norway. The share price was adversely impacted by weaker than expected earnings and the company's increased capital expenditure guidance, which resulted in negative revisions to consensus estimates for earnings and free cash flow in 2019. Partially offsetting these effects was the underweight allocation to the Developed Europe ex-U.K. region, an overweight to the U.K., coupled with above average stock selection within the Financials sector. Within Financials, HDFC Bank Ltd propelled relative performance. HDFC is the leading private sector bank in India. It reported solid fiscal second quarter results, supporting the share price. Headline quarterly earnings increased 21% Y/Y, which was in line with consensus estimates and driven by strength in key metrics: credit quality, top line growth, and lower expenses. We believe HDFC is well positioned to continue to grow profitability given its strong liquidity, recent capital raise and underwriting/marketing prowess. Hong Kong-based insurer AIA Group Ltd also bolstered performance. The company continues to benefit from strong demand for its protection products, underpinned by the dual secular tailwinds of increased insurance penetration and rising affluence. We believe that its distribution and innovation advantages relative to peers should continue to position it for strong growth prospectively.

During the fourth quarter, Industrials exposure was reduced through the liquidations of Legrand SA, Ferguson PLC and Epiroc AB. Energy exposure was also reduced during the period. These reductions were offset

[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.

primarily by increases to Health Care, including the purchase of pharmaceuticals company Novartis AG. We believe that Novartis's business is on strong footing, bolstered by a new CEO who is committed to delivering on cost savings and financial targets, in addition to a strong drug pipeline. From a geographic perspective, notable adjustments were increases to the U.K. and Developed Asia ex-Japan, offset by decreases to Europe ex-U.K. and Canada. The portfolio's weighting in Emerging Markets approximated 8.5% at the end of the period, up from 7.5% at the beginning of the period.

Market Review & Outlook

Heightened concerns about slowing global growth, rising interest rates and tighter liquidity conditions contributed to the broad selloff across global equity markets in the fourth quarter of 2018. The sharp decline in global equities during the quarter (-13.28% for the MSCI ACWI IMI in USD terms) wiped out positive gains for the year and sent indices firmly into negative territory (-10.08%).

The final weeks of 2018 were nothing short of dramatic, punctuated by the U.S. political dispute over the budget which ultimately resulted in the federal government shutdown. Investors were also rattled by the increasingly volatile nature of U.S.-China relations, including the arrest of Huawei Technologies' CFO on suspicion of violating U.S. sanctions against Iran, further complicating the trade war outlook.

U.S. equities fell -13.52% for the quarter – the worst quarterly performance since 3Q2011, as measured by the S&P 500. The majority of underperformance occurred in December over concerns of higher interest rates and renewed political turmoil ahead of the new congressional session. From a sector perspective, Energy equities were hurt the most (-25.77% for the quarter) as the WTI oil price plunged over 40% to as low as $42 per barrel in December.

European and U.K. equities trailed on concerns over slowing economic growth, political turmoil in Italy, and increasing Brexit uncertainty ahead of the March 29 deadline for withdrawal from the European Union. Uncertainty surrounding not only the terms of Brexit but the continuation of Brexit itself weighed more heavily on domestically-oriented U.K. sectors such as real estate and small cap companies more broadly. Amid this difficult backdrop, the MSCI Europe ex-U.K. IMI declined 13.68% and the MSCI U.K. IMI fell 12.66% in USD terms during the quarter.

Emerging market equities outpaced developed markets during the quarter, led by strong outperformance in Brazil (+14.28% USD terms), Indonesia (+8.28%), and India (+3.20%). Within Brazil, optimism towards the newly elected government and pension reform prospects supported investor sentiment. The significant decline in oil prices contributed to gains for Indonesia and India on hopes of moderating inflation prospects, given both countries' dependency on oil imports.

As we begin 2019, surveys suggest that momentum in global growth continued to decelerate at the tail end of last year. Specifically, purchasing manager surveys continue to point to deceleration in the pace of industrial orders growth and subsequent industrial production growth. We regard the deceleration in economic activity in the U.S. to be more about the base effect rather than the end of the current economic cycle. As the impact of highly simulative fiscal policy unveiled at the beginning of 2018 begins to dissipate, the U.S. economy is likely to slow to 2-2.5% growth, from the high of 4.2% in Q2 2018.

At the same time, we continue to expect the divergence between the U.S. and other economies to begin to normalize. If the rest of the world continues to grow at the current pace, while the U.S. economy slows, 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.

In Europe, near-term indicators of industrial activity continue to decelerate. At the same time, employment and income growth together with corporate balance sheets suggest support for domestic demand growth comparable to the 2018 rate. Italian budget woes have subsided, at least for now. While Brexit uncertainty remains an overhang, we believe the U.K. Parliament will seek to avoid near-term economic disruption.

The exceptionally strong U.S. economy and rising U.S. bond yields supported the U.S. dollar in 2018, contributing to a challenging year for emerging market economies. Looking ahead, these headwinds are likely to subside. Further, in the final quarter of 2018, the price of crude oil declined by a third, significantly easing constraints on emerging market economies, as many are large energy importers.

The likelihood of a U.S.-China trade deal and de-escalation of tariff wars has risen at the beginning of 2019. Later in 2019 or in 2020, the U.S. is likely to become a sizeable exporter of LNG and petroleum products. It needs to find consumers for its products, which will be relatively more expensive because of shipping costs. China is the largest and fastest growing consumer of such products. Thus, the economic rationale for a trade deal is substantial and imminent.

Last year, China implemented significant and wide-spread changes in its tax structure, especially income taxes. We expect that reducing taxes for households is likely 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. The recently announced reserve rate requirement cut is noteworthy in its size: the reserve ratio for major banks now stands at 13.5%, down from 17% a year ago.

Recent positioning adjustments within our ACWI-oriented funds generally reflect our incrementally less cautious outlook on emerging markets. Within our dedicated emerging markets strategies, we have added to Brazil and maintained overweighted positions in India. Within China, we continue 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 12/31/18)

	QTR	YTD	1Y	3Y	5Y	10Y
Class I (SI: 05/24/04)	-14.27	-16.47	-16.47	1.10	0.44	6.42
Class N (SI: 05/24/04)	-14.31	-16.68	-16.68	0.85	0.18	6.16
MSCI World ex-U.S. (net) Index	-12.78	-14.09	-14.09	3.11	0.34	6.24

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.16	1.00
Class N	1.44	1.25

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 holds equities which may decline in value due to both real and perceived general market, economic, and industry conditions. 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. Diversification does not ensure against loss.

The MSCI World Ex-US (net) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets outside the US. 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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