William Blair

4Q 2018

Fund Manager Commentary
William Blair Emerging Markets Small Cap Growth Fund

Fund Performance & Positioning

The William Blair Emerging Markets Small Cap Growth Fund (Class N shares) outperformed its benchmark, the MSCI Emerging Markets Small Cap Index (net), during the fourth quarter. Outperformance versus the Index was primarily driven by positive stock selection across most sectors. From a sector perspective, the Consumer Discretionary, Staples and Industrials sectors were the most notable contributors to relative performance. Consumer Discretionary results were boosted by Brazilian retailer Magazine Luiza and Korean apparel company Fila Korea. Magazine Luiza's stock strength was underpinned by continued acceleration in operating momentum as the company executes on its digital transformation and delivers better than expected results in both physical stores and the e-commerce platform. Fila Korea's share price outperformance was supported by the company's strong Q3 financial results, with operating profit doubling year-over-year, driven by solid results across all divisions, combined with Management's positive growth outlook. Within Consumer Staples, both the overweighting and stock selection helped. In particular, Charoen Pokhand Indonesia, the Indonesian poultry feed manufacturer, rallied as the company posted strong operating performance amid favorable chicken prices and stable input costs. Industrials performance was boosted by Brazilian auto-related holdings Localiza Rent a Car, Randon SA Implementos e Participacoes and Tegma Gestao Logistica.

Partially offsetting these effects was weak performance in the Information Technology and Healthcare sectors. Within Information Technology, Globalwafers Co, the Taiwanese semiconductor company, hampered relative performance. The stock fell amid weak silicon wafer demand due to a downturn in the semiconductor cycle. Within Healthcare, Dentium, the Korean dental implant company, corrected sharply on the back of disappointing Q3 results and concerns about slowing China demand.

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

Company Name	*% of Fund*
IRB Brasil Resseguros S/A	2.9%
Magazine Luiza S.A.	2.6%
Fila Korea Ltd.	2.3%
TCI Co., Ltd	2.0%
Localiza Rent a Car S.A.	1.8%
Feng Tay Enterprises Co., Ltd.	1.5%
PT Ace Hardware Indonesia Tbk	1.5%
Hong Leong Bank Berhad	1.5%
Zhejiang Supor Co., Ltd.	1.5%
PT Bank Negara Indonesia (Persero) Tbk	1.4%
Total Top 10	**19.0%**

From a geographic perspective, Brazil was a key contributor boosted by both the portfolio overweight and stock selection. The India overweighting also added to relative performance. Conversely, China was the most significant detractor, dragged down by the portfolio overweighting and negative stock selection effects, especially in Healthcare.

During the fourth quarter, Information Technology exposure was reduced to an underweight position through liquidations in the Electronic Equipment, IT Services and Semiconductor industries. Novatek Microelectronics Corp, the Taiwanese semiconductor company, was sold amid weak end demand for smartphones and TV panel price declines. In contrast, Consumer Discretionary exposure was increased during the period primarily via new purchases in the Hotels, Restaurants and Leisure, Household Durables and Textile, and Apparel and Luxury Goods industries. CVC Brasil Operadora e Agencia, the leading Brazilian travel agency operator, was purchased as the company's growth outlook has significantly improved, driven by the better macroeconomic backdrop, increased store count and digital transformation. Arcelik, the leading Turkish white goods manufacturer with strong brand awareness, low production costs and an extensive distribution network was bought during the quarter. We believe the stock offers an attractive risk reward balance given the improving operating momentum, stabilizing Lira currency, and attractive valuation, and should benefit from the recently announced

[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.

government subsidy program. Exposure to Consumer Staples also increased as a result of the purchases of Indofood CBP Sukses Makmur Tbk (ICBP), a major Indonesian food and beverage manufacturer. We believe ICBP will deliver solid earnings growth on the back of the improving Indonesian consumer backdrop, noodle price hike, volume growth in newer categories and scale efficiency. From a geographic perspective, notable adjustments were an increase to Brazil, offset by decreases to Mexico and China.

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	Since Incep.
Class I (SI: 10/24/11)	-5.93	-23.31	-23.31	0.75	1.97	7.53
Class N (SI: 10/24/11)	-6.05	-23.57	-23.57	0.45	1.65	7.22
MSCI Emerging Markets Small Cap Index (net)	-7.18	-18.59	-18.59	3.68	0.95	2.72

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.35	1.30
Class N	1.68	1.55

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 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 securities of smaller companies tends to be more volatile and less liquid than securities of larger companies. International investing involves special risk considerations, including currency fluctuations, higher volatility, lower liquidity, economic and political risk. Investing in emerging markets can increase these risks. 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 Morgan Stanley Capital International (MSCI) Emerging Markets Small Cap Index (net) is a free float-adjusted market capitalization index that is designed to measure equity market performance of small cap companies in 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 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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