William Blair

4Q 2018

Fund Manager Commentary
William Blair International Leaders Fund

Fund Performance & Positioning

The William Blair International Leaders Fund (Class N shares) underperformed its benchmark, the MSCI All Country World ex-U.S. IMI Index (net), during the fourth quarter. Underperformance versus the Index was primarily driven by negative stock selection effects across most sectors amid the valuation-led market environment. The Consumer Staples and Health Care sectors were the largest sources of underperformance on a sector basis. Within Consumer Staples, Shiseido and Bid Corp detracted from relative performance. Shiseido is the largest cosmetics company in Japan and fifth largest in the world. We expect a continued rebound in earnings growth after a ten year period of operational underperformance and market share loss. 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. This strategy started to bear fruit last year as Shiseido's operating momentum improved, leading the company to dramatically outpace revenues and earnings estimates. Despite this, the company underperformed during the period due to weaker than expected earnings results as a result of slower growth in Japan due to product shortages and natural disasters, both of which we view as temporary.

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

Company Name	***% of Fund***
AIA Group Limited	3.1%
Keyence Corporation	2.5%
Taiwan Semiconductor Manufacturing Company, Ltd.	2.5%
Safran	2.4%
Canadian National Railway Company	2.3%
The Toronto-Dominion Bank	2.3%
LVMH Moet Hennessy-Louis Vuitton SE	2.3%
Lonza Group AG	2.1%
CSL Limited	2.1%
Orsted A/S	2.1%
Total Top 10	**23.7%**

Lonza, a leader in custom manufacturing of biopharmaceuticals and specialty ingredients within the Health Care sector, was an additional source of underperformance despite overall strong business trends. The company offers highly visible growth for the next few years given the strong market demand for outsourced biopharma production and related services. We remain confident that Lonza's expertise and strong market position will enable it to achieve attractive growth prospectively.

Partially offsetting these effects was an underweight in the Consumer Staples sector and positive stock selection within the Communication Services sector. Within Communication Services, Rogers Communications and NetEase helped relative returns. Rogers Communications, the Canadian wireless, cable and media company, was rewarded for its stable earnings profile in a difficult market environment, while Chinese internet and gaming company NetEase outperformed due to improving fundamentals and a healthy game pipeline.

During the fourth quarter, Industrials exposure was reduced through the liquidation of Epiroc, a spin-off of Atlas Copco's construction and mining machinery business. Health Care exposure was also reduced to an underweight position during the period due to the sale of Novo Nordisk, which we exited due to concerns regarding potential pricing pressure in the U.S. These reductions were offset primarily by increases to Communication Services and Financials. From a geographic perspective, notable adjustments were increases to Developed Asia ex-Japan and Emerging Asia, offset by decreases to Developed Europe ex-U.K. The portfolio's weighting in Emerging Markets

[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.

approximated 12% at the end of the period, up from 11% 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	Since Incep.
Class I (SI: 08/16/12)	-14.68	-12.45	-12.45	4.80	3.58	6.98
Class N (SI: 08/16/12)	-14.79	-12.70	-12.70	4.52	3.33	6.71
MSCI All Country World ex-U.S. IMI Index (net)	-11.88	-14.76	-14.76	4.39	0.85	4.37

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.08	1.00
Class N	1.39	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. International investing involves special risk considerations, including currency fluctuations, lower liquidity, economic and political risk. Because the Fund may focus its investments in a limited number of securities, its performance may be more volatile than a fund that invests in a greater number of securities. International investing involves special risk considerations, including currency fluctuations, lower liquidity, and 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. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. Diversification does not ensure against loss.

The 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 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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