

Fund Manager Commentary
 William Blair Large 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

Top 10 Holdings¹ as of 12/31/18

<i>Company Name</i>	<i>% of Fund</i>
Microsoft Corporation	8.3%
Alphabet Inc.	7.6%
Amazon.com, Inc.	7.3%
Unitedhealth Group Incorporated	4.8%
Accenture PLC	3.3%
Zoetis Inc.	3.2%
Mastercard Incorporated	3.1%
PayPal Holdings, Inc.	3.1%
Intercontinental Exchange, Inc.	3.0%
Linde Public Limited Company	3.0%
Total Top 10	46.7%

uncertainties, volatility rose and equity prices declined markedly, wiping out prior 2018 gains.

Fund Review & Outlook

The William Blair Large Cap Growth Fund (Class N shares) outperformed its benchmark, the Russell 1000 Growth Index, during the fourth quarter, adding to its relative performance advantage for the year. Outperformance for the quarter was largely due to stock specific dynamics as style effects were offsetting. Stock selection in Information Technology was a notable benefit to relative performance including our position in open source software provider Red Hat which announced in the quarter that it was being acquired by IBM. Also within Information Technology, not owning Apple and NVIDIA had materially positive effects on relative performance. Fast food company McDonald’s was a top contributor as it outperformed on solid fundamentals and investor appreciation of the durability of the business amid uncertainty. Other top contributors were Intercontinental Exchange

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.

(Financials), Zoetis (Health Care) and Starbucks (Consumer Discretionary). Conversely, video game retailer Activision Blizzard was the top detractor as shares declined after management re-affirmed full year guidance, which disappointed investors who were anticipating a strong beat and raise from the company. Defense contractor Raytheon was also a top detractor. Despite reporting strong business results and better than expected revenue forecasts for 2019, Raytheon underperformed, along with other defense contractors, likely from pessimism around the trajectory of the U.S. defense budget. Other top detractors were Equifax (Industrials), EOG Resources (Energy) and Amazon (Consumer Discretionary). From a style perspective, our emphasis on companies with less volatile fundamentals was a tailwind which was mostly offset by a headwind from our lower dividend yield exposure. Our lower dividend yield exposure is driven by our higher and more sustainable growth bias.

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. Both actions could provide a headwind to growth in 2019, most notably in housing where higher mortgage rates are already impacting sales. 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 heightened 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 slightly 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

strong earnings growth witnessed in the first three quarters of 2018. 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: 12/27/99)	-12.46	5.21	5.21	12.19	11.67	15.06
Class N (SI: 12/27/99)	-12.53	4.96	4.96	11.89	11.38	14.77
Russell 1000® Growth Index	-15.89	-1.51	-1.51	11.15	10.40	15.29

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	0.90	0.80
Class N	1.19	1.05

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 large 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. Different investment styles tend to shift in and out of favor depending on market conditions and investor sentiment, and at times when the investment style used by the Adviser for the Fund is out of favor, the Fund may underperform other equity funds that use different investment styles. The Fund invests most of its assets in equity securities of domestic growth companies, including common stocks and other forms of equity investments (e.g., convertible securities). Convertible securities are at risk of being called before intended, which may have an adverse effect on investment objectives. The Fund is not intended to be a complete investment program. The Fund is designed for long-term investors.

The Russell 1000 Growth Index consists of large-capitalization 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.

Distributed by William Blair & Company, L.L.C., member FINRA/SIPC

Copyright © 2019 William Blair & Company, L.L.C. "William Blair" is a registered trademark of William Blair & Company, L.L.C.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE