William Blair

4Q 2018

Fund Manager Commentary
William Blair 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***
Ball Corporation	3.5%
Ross Stores, Inc.	3.2%
Booz Allen Hamilton Holding Corporation	2.9%
Ulta Beauty, Inc.	2.9%
Cboe Global Markets, Inc.	2.8%
Worldpay, Inc.	2.7%
Live Nation Entertainment, Inc.	2.6%
CoStar Group, Inc.	2.6%
Arista Networks, Inc.	2.5%
Equifax Inc.	2.4%
Total Top 10	**28.1%**

Fund Review & Outlook

The William Blair Mid Cap Growth Fund (Class N shares) underperformed its benchmark, the Russell Midcap Growth Index, during the fourth quarter primarily due to stock specific dynamics as style effects were offsetting. BWX Technologies (Industrials) was the top detractor in the fourth quarter. Stock selection in Information Technology was a detractor in the quarter, as well, including our position in flash-based storage solutions provider Pure Storage which declined in conjunction with many other fast-growing technology companies, despite fundamentals at the company remaining strong. Other top detractors were Parsley Energy (Energy), Conagra Brands (Consumer Staples) and Equifax (Industrials). Conversely, the top contributor in the quarter was metal packaging manufacturer Ball Corporation. The company outperformed due to strong underlying business trends, including healthy global volume growth and the

[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.

continuing secular shift away from plastic toward aluminum cans. Global insurance broker Arthur J. Gallagher was also a top contributor. Solid organic revenue growth, a strong acquisition pipeline and the defensive nature of the business in a market sell-off all contributed to the stock outperforming. Other top contributors were Cboe Global Markets (Financials) as well as Align Technology and Teleflex, both within Health Care where stock selection was also positive. From a style perspective, our emphasis on companies with less volatile fundamentals was a tailwind which was mostly offset by a headwind from our higher 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. 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 strong earnings growth witnessed in the first three quarters of 2018.

Presuming no material fundamental deterioration, and given the fact that both valuations 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: 02/01/06)	-17.54	-0.86	-0.86	6.47	5.42	12.44
Class N (SI: 02/01/06)	-17.64	-1.20	-1.20	6.18	5.14	12.14
Russell Midcap® Growth Index	-15.99	-4.75	-4.75	8.59	7.42	15.12

EXPENSE RATIOS (%)

	Gross Expense	Net Expense
Class I	1.23	0.95
Class N	1.49	1.20

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 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. The securities of smaller and medium sized companies tend to be more volatile and less liquid than securities of larger companies. In addition, small and medium sized companies may be traded in lower volumes. This can increase volatility and increase the liquidity risk whereby the Fund will not be able to sell the security on short notice at a reasonable price. The Fund is not intended to be a complete investment program. The Fund is designed for long-term investors.

The Russell Midcap Growth Index is an index that is constructed to provide a comprehensive and unbiased barometer of the mid-cap growth market. 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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